Poland

BUSINESS FORUM
LONDON 22-24 APRIL 2001

Investment Profile 2001

Held on the occasion of the
EBRD ANNUAL MEETING

Contents

This document was drafted by the EBRD Country Promotion Programme team assisted by Bank staff and the Polish authorities. It was prepared with information available up to March 2001, derived principally from the EBRD, the National Bank of Poland, the Ministry of Finance, PAIZ, ISI Emerging Markets, Reuters, the EIU, Polish News Bulletin and Oxford Analytica. Every effort has been made to ensure accuracy. However, no responsibility is accepted for the contents of this document.
ISSN 1470-3963

Foreword

On the occasion of the tenth anniversary of the European Bank for Reconstruction and Development, I would like to welcome you to the sixth annual edition of the Poland Investment Profile.

In the past 10 years since the Bank was founded, we have witnessed enormous change in central and eastern Europe. The original challenge for transition was to achieve sustainable growth. In Poland this has been consistently achieved without a single break, which is evidence of Poland's resilience to the external shocks that have proved a setback for some other countries in the region and in the world.

The EBRD has played an important role in Poland's transition process, constantly showing its flexibility and innovative skills by adapting its financing instruments to suit the needs of the day. Thus we have seen moves from agency credit lines to wholesale financing through local banks, from credits to joint ventures with strong foreign partners to loans to fully Polish companies, from sovereign-guaranteed loans for infrastructure development to direct loans to municipalities and municipal service companies. The Bank has supported the pioneers of world industry who ventured into the region for the first time with risk capital; it has directly tackled the restructuring of enterprises in difficult sectors from agribusiness to steel; it has endeavoured to assist Poland in meeting pre-accession challenges by not only reacting to objectives, but by creating projects which support convergence in the agricultural sector, the municipal sector and environment; and it has expanded the availability of capital to small and medium-sized enterprises through its support to private equity funds and local banks.

EBRD financing for Poland now totals some US$ 2 billion, and that funding has mobilised a further US$ 7 billion, which means that the Bank has been involved in about a third of all foreign investment into Poland in the past decade. The Bank acts as a catalyst, encouraging and enabling new investors to put their confidence in Poland. As the largest single, purely financial investor in Poland, the Bank can be proud of its accomplishments.

However, we cannot be complacent. Although Poland has made an excellent transition to an open-market economy and is deemed able to compete with European Union economies, there is still a lot of work to be done to complete the country's transformation. It may be that in view of the country's success much of the EBRD's original role has been taken over by commercial banks, but there is still a large part for the Bank to play in Poland's future.

To ensure long-term economic prosperity in Poland, the task ahead of us now is to develop resilience and a standard of competitiveness that will withstand changing global economic cycles. Not only does Poland need to supply its population with employment, but it also needs to utilise its entrepreneurial traditions to make it a technological leader in Europe. The combination of a lower cost base relative to EU countries and technological leadership would be a powerful competitive base for Poland. A quick glance at technological development in the banking sector alone highlights the possibilities – in less than a decade, Poland has leap-frogged from a society where only a few citizens had a bank account, to one where electronic banking is routinely enjoyed by millions of Poles.

As in banking, Poland has the unique opportunity of catapulting ahead of many advanced countries in other areas too, but it must seize that opportunity. It must replace the declining tradition of heavy industry and manufacturing with thriving services sectors. Poland needs to create within its population a culture based on technological knowledge and functional flexibility, that allows the entrepreneurial spirit to flourish, and that promotes opportunity rather than dependence. It must continue to attract the FDI that brings skills transfer, know-how and the best examples of management talent. It must ensure capital markets that are deep enough and flexible enough to support continuous new business creation.

Today's Poland is the logical choice in Europe for investment, given its strong future perspectives. With continued cooperation with the EBRD, we believe that the country will be well-positioned to enjoy sustained growth and economic prosperity.

Jan Krzysztof Bielecki
EBRD Alternate Board Director for Poland

Introduction

Poland is one of the most advanced transition countries and has made substantial achievements in reforming its economy and social provisions. The main policy goal of EU accession acts as a uniting force driving the political will for sustained reform. Negotiations with the EU are well under way, although a few major issues must be resolved including the restructuring of agriculture and heavy industry. Record success with large-scale privatisation in 2000 is moving the process towards its conclusion. Poland is well integrated into international structures and enjoys good relations with its neighbours.

Poland has now kept up its record of uninterrupted growth for nine years. The pace of growth has slowed slightly, as expected, but mainly because of tight monetary control designed to keep inflation in check. Foreign direct investment inflows continue to grow at a robust pace, totalling a record US$ 9.3 billion in 2000 – one-third of the cumulative total since 1991 – on the back of rapid progress in privatisation. The strong banking sector is largely privately owned with the active involvement of Europe's leading banks, supported by legislation that conforms with the EU. Poland's capital markets are rapidly gathering strength, boosted in 2000 by new pension funds, and are the largest and most active in the region. Meanwhile, EU accession negotiations are proceeding, not without some problems, but Poland has never lost sight of the Maastricht criteria as a guide for its fiscal policy and has made good progress in aligning its legislation to the *acquis communautaire*. Poland is already a member of the other main western structures, including the WTO, the OECD and NATO.

In 2000, record privatisation income was achieved, the largest transaction being the sale of a 35 per cent share in the dominant telecoms company, TPSA, to a consortium led by France Telecom for US$ 4.3 billion. Equally notable are the more recent sales to industry-leading strategic investors of power plants and energy distribution companies, with further sales imminent. In both energy and telecoms, the completion of privatisation, to be rapidly followed by full liberalisation and open competition, is now in sight. Privatisation of large enterprises is not free of complication, and several of the recent sales have followed more than one failed attempt. However, lessons have been learned, and even the most difficult sales, in sectors such as oil refining and steel, are now attracting the interest of strategic investors able to bring in the necessary restructuring and investment for modernisation.

Forthcoming general election

In October 2000 Aleksander Kwaśniewski won a resounding victory and was re-elected as President, which was no surprise in view of his popularity. The present government is facing very different prospects for the parliamentary election due to take place in September. The present right-of-centre government, originally a coalition of Electoral Action Solidarity (AWS) and the Freedom Union (UW), has suffered from internal differences and is not expected to survive the September election. In June 2000 the UW left the coalition, which had been characterised by tensions between the two parties, leaving the AWS without a parliamentary majority. However, despite their own internal tensions the AWS leaders have pulled together and the government is expected to stay in place until the election, when it is likely to be beaten by the left-wing Democratic Left Alliance (SLD). The recent foundation of a new centre-right party, the Citizens' Platform (PO), is expected to split the right-wing vote, to the advantage of the SLD. If in need of a coalition partner, the SLD is likely to invite its traditional ally, the Polish Peasants' Party (PSL), to join it in government.

Despite fairly frequent changes of government over the past decade, Poland has kept up the pace of reform and has remained politically stable. Poland has a well-developed sense of democracy, and regards political competition as a healthy phenomenon. The likely change of government is not expected to affect the country's central policy aim of joining the EU and further aligning itself with western structures, as there is broad political consensus on this main driving force for reform. Comparative research on the transition countries has shown that those with broad-based, multi-party coalitions are generally those that sustain reform, as political competition has the advantage of loosening the hold of vested interests.

The challenges ahead

Despite its successes, Poland faces some big challenges in its quest for EU accession.

The main issue for the economy is the need to keep the current account deficit within a manageable limit, in the face of an impending drop in EU demand for Polish exports as the EU economies slow down. Another reason for reducing the high level of the current account deficit is that with the natural end of FDI revenue from the privatisation of large enterprises, which will be completed in the next two years, the external balance will lose a valuable source of income. To sustain capital inflows at a similar level, further improvements in the investment climate will be needed to attract greenfield investment.

Keeping inflation in check has also been a concern for the economy, though inflationary pressures in 2000 were swiftly controlled by a rise in interest rates. Fiscal pressures have been imposed by wide ranging social reforms, and the restructuring of heavy industrial branches, involving redundancy schemes, is an additional strain on the budget. A recent major tax reform, which has brought down the level of corporate income tax, will ultimately boost business activity but in the short term adds further pressure.

One of the biggest challenges for EU accession is the restructuring of heavy industry, in particular the coal mining and steel sectors. The government's ongoing programmes are making progress, but involve large reductions in the workforce, and a return to profitability will ultimately depend on the successful outcome of privatisation in branches that are difficult to sell. Further restructuring will be needed to raise the competitiveness of these industries, though there are positive signs that the latest attempts to privatise the largest steelworks and a major oil refinery may be successful soon.

Perhaps the most problematic area is agriculture, where in contrast to the sustained productivity gains in manufacturing, for lack of reform the sector lags well behind. Major investments in rural infrastructure and education are needed to close the gap. EU negotiations on agriculture are increasingly difficult as Poland insists that its farmers should benefit from the same level of EU subsidies as existing members upon accession. In an election year, there is inevitably reluctance to make drastic changes that would force a large number of workers to seek new jobs, at a time when there are also a large number of new entrants to the labour force. To mitigate the consequences of the inevitable fall in employment in the problem sectors, deeper reform of the services sectors is also needed to guarantee the creation of alternative jobs. According to the IMF, growth of at least 4 per cent must be sustained to create new jobs for the young as well as for those having to move from agriculture and heavy industry into services.

Another major challenge is the costly task of cleaning up the environment, which because of heavy industrialisation suffered severe damage in the pre-transition era. Environmental legislation has been prepared to meet the requirements of the *acquis communautaire*, but has yet to be adopted. The same goes for implementation programmes for dealing with pollution. The EU has recommended that a comprehensive investment strategy should be adopted.

International relations

Poland continues to orient its foreign and security policy towards that of the EU, and participates actively in the framework of the Common Foreign and Security Policy (CFSP), contributing to the development of European Security and Defence Policy in particular. Poland has regularly aligned itself with the position of the EU, for instance regarding FR Yugoslavia. Following the Kosovo crisis, Poland showed active support for the Stability Pact for South-Eastern Europe, and continues to participate in the SFOR peacekeeping operations in Bosnia and Herzegovina and also in KFOR in Kosovo with over 1,600 personnel. The UN-appointed ombudsman for Kosovo is a Polish national.

Poland participates actively in regional cooperation forums such as the Council of Baltic Sea States, the Visegrad group and the Central European Initiative. It also conducts important dialogue with its immediate neighbours, for example at regular meetings of the Polish-Ukrainian Standing Conference on European Integration, and in cross-border cooperation with the Russian enclave of Kaliningrad. Poland also maintains good working relations with Belarus, and cooperation with Lithuania is increasingly close.

Progress

- Considerable acceleration in the adoption of EU law (especially in the area of product certification, consumer protection and regulation of state aid to industry).
- Macroeconomic stability has been improved.
- Good rate of economic growth.
- Good export performance.
- High FDI inflows.
- Pace of privatisation has been encouraging.

Progress yet to be made

- The privatisation and restructuring of the steel sector need to be accelerated.
- Extensive restructuring of the agricultural sector is needed.
- Reform of the civil service is required.
- Environmental legislation needs to be improved.
- Greater progress towards price stability is needed.
- The reduction of the current account deficit is required.
- Further investments are needed to modernise infrastructure.

EU accession negotiations

Poland's EU accession negotiations are progressing, and of the 29 chapters now opened during the course of four negotiating rounds since March 1998, 11 had been provisionally closed by the time of the most recent EU Progress Report, issued in November 2000. These are: Economic and Monetary Union, Statistics, Industrial Policy, Small and Medium-sized Undertakings, Science and Research, Education, Training and Youth, Telecommunications and Information Technologies, Consumers and Health Protection, External Relations, Common Foreign and Security Policy, and Financial Control.

Negotiations continue for the remaining chapters, and are expected to be completed by the end of 2002, in the most optimistic scenario, to be followed by ratification. However, in view of the difficult position relating to agriculture and the environment in particular, Poland's actual accession may not take place until 2004-05.

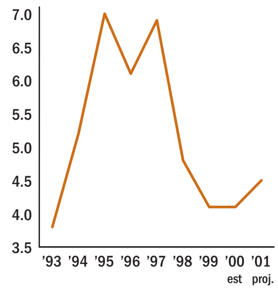
In the November 2000 Progress Report, the EU identified priority areas for further work.

The main points were as follows:

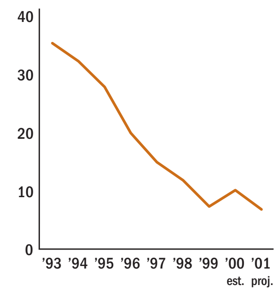
Since January 2000, three pre-accession instruments financed by the EC have been available to assist the applicant countries of central Europe in their pre-accession preparations: the Phare programme, which finances institution building and investments; SAPARD, which provides aid for agricultural and rural development; and ISPA, which finances infrastructure projects in the fields of environment and transport. In the years 2000-02 total financial assistance to Poland will amount annually to € 398 million from Phare, € 168.6 million from SAPARD, and between € 312 and 385 million from ISPA.

Economic summary

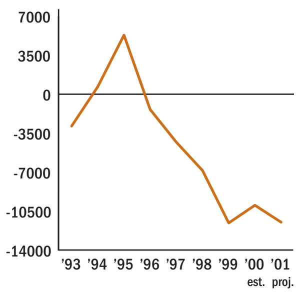
GDP
% change



Consumer prices
Annual average, % change



Current account
US$ millions



Source: Ministry of Finance and National Bank of Poland

In 2000, Poland continued its impressive economic performance through the implementation of prudent economic policy. The economy has been experiencing strong output growth, linked to an acceleration of domestic demand in the first half of the year and a pick-up in external demand in the second half. Foreign direct investment inflows were significant in 2000, playing a major role in the progressive upgrading of Poland's exports and overall competitiveness. The widening of the current account deficit in early 2000 was reversed in the second half of the year. However, further reduction of the current account deficit, the high level of unemployment and a further reduction in inflation are the most pressing challenges for the government's economic policy. The EU regards Poland as able to cope with competitive pressure and market forces within the Union in the near term.

Economic growth

The rate of GDP growth was 4.1 per cent in 2000, and was on a declining trend throughout the year. While the economy grew by 6 per cent in the first quarter of 2000, growth in the second quarter was 5.2 per cent and fell further in the third quarter to 3.3 per cent, and to 2.2 per cent in the final quarter. The slowdown was largely the result of tight monetary policy that constrained domestic demand. GDP growth is projected at 4.5 per cent in 2001, as a result of an expected slow rate of export growth, mainly owing to the slowdown in EU economies, the real appreciation of the zloty, and depressed domestic demand.

Inflation

Inflationary pressures re-emerged in 2000. Inflation increased to 11.6 per cent in July 2000, but fell to 8.5 per cent in December. Although the major causes of inflationary pressures were supply side factors, oil and food prices, the Monetary Policy Council increased headline interest rates between August 1999 and August 2000. The inflation rate started falling in the autumn of 2000 as tight monetary policy, implying 8-10 per cent real interest rates, suppressed domestic demand. However, the 2000 inflation target rate of between 5.4 and 6.8 per cent was missed for the second year running. According to the 2001 budget draft, average annual inflation is to fall to 7 per cent this year.

Current account

The external balance has been on a declining trend in the last three years. Negative foreign trade trends continued in the beginning of 2000 as well, and the current account deficit reached 8.3 per cent of GDP on a rolling basis in Q1 2000. However, exports started to grow strongly from Q2 2000 on the back of robust EU growth and recovery in Russia and other CIS countries. Reinvigorated export growth and restrained imports due to tight monetary policy led to a decline in the current account deficit to 6.3 per cent of GDP by December 2000. Large FDI and short-term capital inflows, including US$ 4.3 billion generated by telecom privatisation, were sufficient to cover the external deficit in 2000 and are likely to remain so in 2001.

FDI and privatisation

Poland received a high level of FDI inflows in 2000, estimated at US$ 9.3 billion. The received FDI and short-term capital inflows were sufficient to cover the external deficit in 2000 and are likely to remain so in 2001. The impact of FDI on restructuring and improvements in corporate governance is also significant. A large share of FDI so far has been related to privatisation. The completion of the current privatisation programme in the next few years will necessitate new strategies to attract more greenfield investment.

Government budget

In 2000, the general government deficit was 3 per cent of GDP, somewhat lower than in the last few years. The recent introduction of reforms in the health care system, a three-pillar pension system, and the creation of a new layer of regional administration as well as the new tax system put significant strains on the state budget. Additional fiscal pressures were due to generous redundancy packages offered to employees in heavy industry and to substantial subsidies for the agricultural sector. The fiscal deficit is expected to remain around the same level in 2001 as in 2000, as the government is unlikely to enforce significant fiscal tightening in an election year. The central budget deficit was set at 2.6 per cent of GDP by the 2001 budget passed in February 2001.

Exchange rate

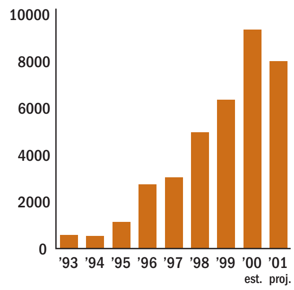
The flotation of the currency in April 2000 resulted in moderate depreciation against both the Euro and the US dollar. However, the currency has strengthened again since then due to record FDI inflows, mainly related to telecom and energy sector privatisation, and high interest rates. Some foreign exchange receipts from privatisation are transferred to a special account in the National Bank of Poland (NBP) to be held against future debt service. The first such transfer occurred in September 2000.

EU convergence issues

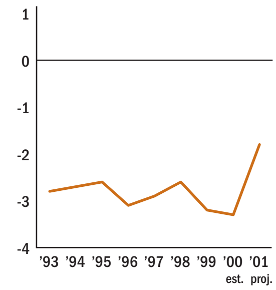
Poland received a positive assessment of its economic development and preparations for accession from the European Commission in 2000. The annual EU progress report concluded that the country is a functioning market economy and should be able to cope with competitive pressure and market forces within the Union in the near term.

The EU stated that in 2000 Poland continued to improve its functioning as an open market economy through prudent macroeconomic policies and implementation of various types of structural reforms. Poland experienced relatively high economic growth and a good export performance in 2000. However, the Commission warned against developing macroeconomic imbalances, namely the rising rate of employment, increasing inflation and the widening current account deficit. The EU also underlined that the process of privatisation and restructuring, particularly in agriculture and heavy industry, should be accelerated.

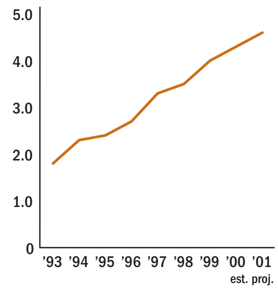
Total FDI
US$ millions, cash receipts, net



General government balance
% of GDP



Exchange rate
Annual average, zlotys per US$



Source: Ministry of Finance and National Bank of Poland

Credit ratings

Standard & Poor's sovereign ratings, January 2001

Local Currency			Foreign currency		
Long-term	Outlook	Short-term rating	Long-term rating	Outlook	Short-term
A+	Stable	A-1	BBB+	Stable	A-2

Moody's country ceilings for foreign currency ratings, January 2001

Bonds and notes		Bank deposits	
Long-term	Short-term	Long-term	Short-term
Baa1	P-2	Baa1	P-2

Fitch IBCA foreign currency sovereign ratings, January 2001

Long-term	Short-term
BBB+	F2

Selected economic indicators

	1993	1994	1995	1996	1997	1998	1999	2000 est.	2001 proj.
GDP (% change)	3.8	5.2	7.0	6.1	6.9	4.8	4.1	4.1	4.5
Consumer prices (annual average % change)	35.3	32.2	27.8	19.9	14.9	11.8	7.3	10.1	6.8
Current account (in US$ millions)	-2,868	677	5,310	-1,371	-4,312	-6,858	-11,569	-9,978	-11,500
General government balance (% of GDP)	-2.8	-2.7	-2.6	-3.1	-2.9	-2.6	-3.2	-3.3	-1.8
Trade balance (in US$ millions)	-2,482	-895	-1,912	-8,179	-11,320	-13,720	-14,380	-13,165	-15,000
Total FDI (in US$ millions, cash receipts, net)	580	542	1,134	2,741	3,041	4,966	6,348	9,338	8,000
External debt stock (US$ millions)	na	na	na	47,541	49,648	59,163	64,350	na	na
Unemployment (% of labour force)	16.4	16.0	14.9	13.2	10.3	10.4	13.1	15.0	14.0
Exchange rate, annual average, zlotys per US$	1.8	2.3	2.4	2.7	3.3	3.5	4.0	4.3	4.6
Gross official reserves, excluding gold (end-year, US$ millions)	4,281	6,029	14,963	18,033	20,298	26,432	24,535	26,562	26,100

Sources: Ministry of Finance and National Bank of Poland

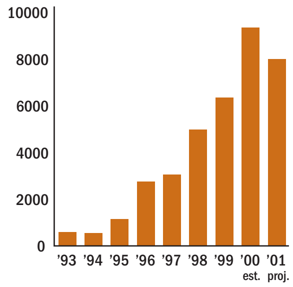
Investment climate

In recent years Poland has become a leader among central and eastern European countries in terms of the volume of foreign direct investment inflow. The strong growth perspective of the Polish economy, the relatively low labour costs and large labour pool, the size of the domestic market, the prospects for EU accession and the general good business climate are all factors that make Poland attractive to foreign investors. Privatisation has been the main driving force behind rapid FDI growth in recent years and is expected to sustain high rates until about 2002.

Foreign direct investment

Total FDI

US$ millions, cash receipts, net



Source: Ministry of Finance and National Bank of Poland

Poland attracted a record amount of foreign investment in 2000, with net FDI estimated at US$ 9.3 billion. The FDI stock level since 1991 is estimated to have reached US$ 35.5 billion. In recent years most FDI originated from the privatisation process, and FDI flows are expected to decline once privatisation is complete. For this reason, the authorities must turn their focus towards attracting FDI by strengthening promotional activities in the international arena that highlight the country's good economic prospects, stability and large market. As the privatisation revenues come to an end, a fall in FDI may be expected in about two years' time. However, FDI is expected to return to the current level once Poland joins the EU.

In the first half of 2000, Germany, the long-term leader with respect to the volume of FDI in Poland, lost its position to the US. Other countries in the top rank of major foreign investors by country of origin are the Netherlands, France, Italy, and the UK. Germany, the US, the Netherlands and France jointly account for some 70 per cent of the total FDI stock invested in Poland.

Up to the end of 1998, the largest amount of FDI (some US$ 8.7 billion) was registered in the manufacturing sector, led by the food processing sub-sector (15.4 per cent of this total) and the automotive sector (9.7 per cent), followed by wood processing, printing and publishing, and manufacturing of non-metal goods. In the past four years the share of the manufacturing sector in FDI has been falling, while the share of the services sector has been rising. The financial services sector has received significant foreign investments, thanks to the privatisation of state-owned banks and the opening of the insurance and pension sectors to foreign investors. The accumulated value of investments recorded in the financial sector at the end of June 2000 amounted to more than US$ 9.2 billion, that is 23.7 per cent of the overall inflow of direct investments into Poland.

Concerning the geographical location of investments, foreign companies prefer to start their operations in large urban agglomerations. Poland's largest provinces, namely Mazowieckie (around Warsaw), Wielkopolskie (the western region), Dolnośląskie (lower Silesia), and Pomorskie (the coastal region) have proved to be the most attractive locations, as these regions are the most advanced economically and have a well-developed technical, transport and banking infrastructure.

FDI inflows, 1992-2000, US$ million

	1992	1993	1994	1995	1996	1997	1998	1999	2000 cash basis data	1997:1996, %	1998:1997, %	1999:1998, %
Equity (in cash)	298	892	884	1,807	2,845	2,663	4,323	6,064	na	93.6	162.3	140
In-kind equity	135	217	212	298	314	453	281	403	na	144	62	143.4
Reinvested earnings	154	199	382	888	244	25	-264	-453	na	10.2	na	na
Credits and loans directly linked with FDI	91	407	397	666	1,095	1,767	2,025	1,256	na	161.3	115	62
FDI inflows total	678	1,715	1,875	3,659	4,498	4,908	6,365	7,270	9,400	109.1	130	114.2
Dynamics of FDI total inflows (previous year=100)	188	252	109	195	122	109	130	114.2		109.1	130	114.2

Source: "FDI in Poland in 1998", National Bank of Poland, 1999

Privatisation

The privatisation process has made strong progress under the current government. The sale of the banking sector is almost complete, the largest oil company PKN Orlen has been floated, the national airline LOT has been paired with a strategic investor, and progress has been made in selling energy assets. The largest deal in 2000 was the sale of a 35 per cent stake in telecoms operator Telekommunikacja Polska (TPSA) to a consortium led by France Telecom (with a 25 per cent share in the consortium). However, the privatisation process also suffered some setbacks, such as the need to redefine the privatisation strategy for the largest steel mill, Huta Katowice. Also, tensions erupted between the government and Eureko, a pan-European insurer, that together with BIG Bank Gdańsk had acquired a 30 per cent stake in leading insurance company PZU in 1999. (For details see *Financial sector* below.)

The largest privatisation transactions in Poland in 2001 are expected to include an up to 75 per cent sale of Rafineria Gdańska, Poland's second largest refinery. Several privatisations are planned in the energy sector: the government wants to complete the privatisation of Poland's 17 power plants, 19 power and heating plants and 33 energy distribution firms by the end of 2002. (So far, two power plants and six power and heating plants have been sold.) The government has also announced plans to privatise the gas distribution company, PGNiG, by 2002. In late July 2000, the Sejm decided to restructure the state railway company, PKP, in advance of eventual privatisation, which is expected to happen by 2002. (For details see *Major sectors of the economy* below.)

As the privatisation process advances and the state runs out of saleable assets, the Treasury Ministry estimates that privatisation revenues will almost halve in 2002, down to PLN 10 billion from the expected level of PLN 18 billion in 2001.

Investment policy

Foreign-owned companies enjoy national treatment in Poland. Investors operate on the basis of general business legislation including the Commercial Code, the Law on Economic Activity etc. Although there are a few minor restrictions on the activities of non-residents, the rules for foreign investors are fully transparent, and it is possible to apply for permits to take part in the restricted activities. Foreign companies operate under the same tax and labour codes as domestic companies, are free to repatriate capital and may invest in all but a few strategic sectors. The law affords a high level of protection for private property, and regulations on founding companies have been harmonised with EU regulations. In some sectors new businesses are required to seek a licence, but in general the process is relatively uncomplicated, depending on the sector in question.

Several significant legal changes that came into effect from 1 January 2001 (including the Law on Commercial Activity and the Code of Commercial Partnerships and Companies) further enhanced the attractiveness of the Polish market and cleared some of the legal barriers that had hindered foreign investors for the past few years.

In December 2000, the Sejm amended regulations on the purchase of real estate by foreigners, under which EU businessmen and firms will still have to obtain consent from the Ministry of Internal Affairs and Administration, but it will be a mere formality provided the investment proves necessary for conducting economic activity. However, the liberalisation does not apply to farm and forest land. There are restrictions on the purchase of land, for which a permit is still required. The right of foreigners to buy agricultural real estate has emerged as one the most difficult issues in accession negotiations with the EU. Poland has requested that following accession to the EU there should be a transition period during which EU citizens would be unable to buy Polish agricultural land.

Special Economic Zones

Poland has 17 Special Economic Zones (SEZs – of which 15 are active), where foreign investors receive preferential treatment and tax breaks, including partial or total exemption from income tax for a defined period of time, treating certain parts of investment outlays as revenue expenditure, and exemption from certain local taxes. By the end of 2000, nearly 700 investors had initiated business activity in SEZs, among them such companies as General Motors, Isuzu, Delphi and Toyota.

In 2001 Poland amended the privileges granted to companies investing in SEZs, in order to adapt the rules for public assistance to meet EU regulations. At the end of 2000, in order to adjust Polish law to EU requirements, the Polish parliament adopted legislation regulating SEZs and public assistance. According to the new regulations, the value of public assistance for an investor must not exceed 50 per cent of the value of the investment. Another novelty is the provision enabling local governments to impose real estate taxes on companies operating in the zones, or to exempt them.

The forms of public assistance offered by the SEZs include subsidies, tax relief and bonuses for creating new work places. Investors already operating in SEZs will have their privileges grandfathered.

A new foreign exchange law came into force in January 1999, changing the foreign exchange regime in compliance with OECD, EU and IMF standards. The law freed most foreign currency flows but retained restrictions on foreign purchases of short-term capital flows. However, the government is committed to full liberalisation well before EU accession.

The Polish Agency for Foreign Investment (PAIZ)

PAIZ was established in 1992 to promote Poland's investment opportunities and to encourage foreign companies to choose Poland as their preferred investment location. At the 8th Annual Convention of Investment Promotion Agencies held in Chicago in September 1997 PAIZ received the title of the European Investment Promotion Agency of the Year.

PAIZ helps businesses considering investment in Poland by:

- providing information, advice and guidance to foreign investors;
- facilitating the initial stages of their investment process;
- providing legal, technical and financial information;
- assisting foreign investors in identifying potential business partners; and
- maintaining a link between foreign investors and appropriate government and local authorities.

The Agency is a joint stock company, wholly owned by the State Treasury. PAIZ's role is that of an intermediary serving individual and corporate foreign investors.

By maintaining an on-going dialogue with the Polish authorities PAIZ aims to improve the local environment for foreign investment, and ensure that potential investors have access to key players in the Polish market.

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Taxation and social expenditure

In January 2000 a major tax reform was launched. Corporate income tax was lowered from 34 per cent in 1999 to 30 per cent in 2000, and will come down to 28 per cent in 2001-02, to 24 per cent in 2003 and to 22 per cent in 2004. In addition, tax incentives and a complex system of investment allowances were eliminated and some rules regarding depreciation of assets and revaluation of fixed assets simplified. Although reform of personal income tax was also proposed, lowering the marginal rates and simplifying the rules, the amendment was vetoed by the President. According to the original plans, the two higher income tax bands would fall from 30 per cent to 29 per cent and from 40 per cent to 36 per cent in 2000.

Furthermore, the VAT tax base was broadened and in July 2000 the Sejm approved amendments to the laws on value-added tax (VAT) and excise, bringing them into line with EU legislation.

VAT was introduced for agricultural products at a reduced 3 per cent rate. The change means that over the next two years VAT will go up on some goods which are at present exempt from it or which qualify for the lower 7 per cent rate.

In January 1999, Poland introduced a three-tier pension system in response to sizeable fiscal pressures from the old pay-as-you-go system. The new pension system consists of a reformed pay-as-you-go system, with closer links between contributions and benefits, fully funded mandatory contributions to the private pension funds, and voluntary contributions. The retirement age has been set at 60 for women and 65 for men.

Social sector reforms implemented in 1999 had a mixed reception and their costs were higher than expected. Principal causes of the adverse fiscal development were the performance of the social security system, including a loophole in the legislation reforming social security that allowed contributors to postpone all the contributions by one month, the persistent occurrence of fraud in the sickness benefit system, and low collection ratios due to financial difficulties in some state-owned enterprises as well as technological problems complicating collection of contributions.

Markets and trade

The EU is Poland's largest trade partner, with Germany in the lead followed by Italy and France. From the beginning of 1999 a free-trade area with the EU has existed for most industrial goods. Gradual liberalisation in agricultural trade is to follow. In September 2000, the two sides agreed to liberalise trade in non-sensitive agricultural products, and quotas in sensitive products, such as pork, beef, poultry and wheat, will be increased by 10 per cent each year. Poland is also in the process of aligning its commercial policy with that of the EU, in preparation for membership.

Poland is a member of the Central European Free Trade Agreement (CEFTA), which has seven members, (Poland, Hungary, the Czech Republic, Slovakia, Slovenia, Romania and Bulgaria). However CEFTA accounts for only a small proportion of trade. In addition, Poland holds Free Trade Agreements with Turkey, Estonia, Latvia and Lithuania, the EFTA countries, and Israel.

Poland is also a full and active member of the WTO. The EU and Poland have established a framework for cooperation regarding WTO issues both at the ministerial and departmental level. Poland has been supportive of EU policies and positions within the WTO framework.

The structure and composition of trade changed in the 1990s. Cars and car parts, wood and timber products and machinery and equipment have become important exports, with the re-export of processed imports playing a particularly large role in some of these categories. The share of food industry products, although still a major element, has dropped in recent years. Poland's challenge is to move into higher value-added industrial and services branches, while also developing agricultural export potential.

Foreign trade turnover by major countries in the first 10 months of 2000

Country	Export turnover in US$ million	Country	Import turnover in US$ million
Germany	9,138.1	Germany	9,760.0
Italy	1,639.4	Russia	3,702.3
France	1,348.9	Italy	3,430.2
Netherlands	1,324.8	France	2,612.2
Great Britain	1,168.0	UK	1,819.2
Czech Republic	969.3	USA	1,621.5
USA	763.2	Netherlands	1,470.7
Belgium	750.3	Czech Republic	1,324.0
Sweden	711.0	Sweden	1,173.8
Denmark	709.4	China	1,109.7

Source: STAT

The Country Promotion Programme

thanks

Taipei China

The Taipei Technical Cooperation Fund

United Kingdom

The Know How Fund

Switzerland

The Swiss Technical Cooperation Fund

Canada

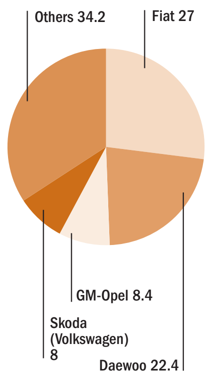
The Atlantic Council of Canada

Major sectors of the economy

The sectors (apart from the financial sector) that have attracted most investment are the automotive and food processing branches. New opportunities are now arising as large-scale privatisation advances in the energy sector. Obstacles to a fully competitive market in energy and in telecoms are being removed, and investors are vying to be well placed for the business opportunities that will follow.

Automotive

Passenger car market share
2000



Source: Samar

The automotive industry has attracted the largest foreign investments to date, from Fiat (Italy), Daewoo (South Korea) and General Motors (US). Along with firms such as Isuzu (Japan), Delphi (US), Volkswagen (Germany), MAN (Germany), Volvo (Sweden), and Toyota (Japan), they have invested a total of some US$ 6 billion in car and vehicle components manufacture. The market has room for expansion and the industry is increasingly profitable in terms of export sales. However, the automotive sector has recently suffered a severe downturn on the domestic market, and on the export market due to the strength of the zloty.

There were 241 cars per 1,000 inhabitants in 2000, which is about two-thirds of the number in the Czech Republic and one-third the number in western Europe, implying that there is still plenty of room for the market to expand. In 1999, a record-breaking 640,186 new cars were sold. However, domestic car sales overall dropped by 25 per cent in 2000 to 478,752, as buyers turned to second hand cars instead. The main reasons for the decline in sales are high taxes (excise taxes on cars rose from 2 to 6 per cent in 2000, and taxes on petrol are high), the high cost of car insurance, and high interest rates. In January 2001 car makers raised their prices to offset the fall in sales, and several announced large-scale lay-offs to reduce costs.

The number of imported cars increased in 2000, with low customs tariffs for used cars encouraging the trend. Tariffs for imports of new cars from the EU (now 5 per cent) have also been gradually coming down in the run-up to EU accession, when they will be abolished. To reverse the decline in domestic sales, car manufacturers have called for the government to introduce restrictions on the import of second hand cars and to lower the excise tax on new cars. In fact the excise tax hike had a negative effect on tax collection, as the revenue from VAT on car sales decreased. From 2001 the government did change the tariffs to limit the number and age of imported used cars. The Finance Ministry has created a special group to draft an extensive plan for the development of the automotive sector, including stimulation of domestic production and a reduction in the number of imported used cars that do not meet environmental standards. It has also been said that domestic car production was encouraged too strongly in the first half of the 1990s, when manufacturers took advantage of large tax breaks and other benefits for setting up plants in Poland. The tax breaks are to be scaled back considerably at the end of 2001.

However, the picture is not entirely gloomy, as car exports grew by some 20 per cent in the first nine months of 2000 to become Poland's leading export item. The main models for export are Fiat's Seicento and GM-Opel's Agila microvan. Exports of diesel engines have soared to a value of US$ 783 million in the same period, as Volkswagen and Isuzu have started to make modern direct injection turbocharged diesel engines in Poland. This is expected to increase when Fiat, in a joint venture with General Motors, completes a new factory in southern Poland.

Leading car makers

Fiat (Italy) is among Poland's biggest investors and is its biggest single exporter, with US$ 1 billion annual sales abroad. However, in February 2001 Fiat announced plans to lay off 750 workers at its Tychy plant, following a 37 per cent drop in sales in 2000. Fiat owns the FSM car factory and is the market leader. Apart from its manufacturing activities it offers banking services to arrange financing for Fiat car purchases, as well as car insurance.

Daewoo is the country's second biggest investor, and owns the FSO car factory, a van-making plant, an electronic components plant and several other subsidiaries. The three plants alone employ some 24,000 people. However, in view of the bankruptcy of the South Korean parent company, a buyer needs to be found for the FSO Warsaw factory, which has also announced plans to lay off some 1,300 of its 6,000 workers. It too cited the contracting car market as the reason for this decision, following a 26 per cent drop in sales in 2000, rather than the bankruptcy of Daewoo. A consortium of Polish investors has been considering acquiring a controlling stake in Daewoo's Lublin plant, which produces commercial vehicles. This plant laid off 1,200 workers in January 2001 and needs some US$ 100 million to continue production. Volkswagen had earlier expressed interest in the Lublin plant but changed its mind. The government has held talks with GM and Fiat on taking over some of Daewoo's assets, and Hyundai (South Korea) has been named as a potential buyer for the FSO plant, but nothing has been decided. The government plans to help the investor who takes over Daewoo's factories, but will seek guarantees on jobs and production at FSO. Poland is claiming that Daewoo has not honoured its original agreement to invest US$ 1.2 billion and to boost local content in FSO's cars to the level required for exports to the EU. However, the government has also offered to guarantee loans to keep Daewoo's plants in operation, including half of the US$ 100 million needed to launch production of Matiz engines at the FSO plant and some US$ 130 million needed for the Lublin plant.

General Motors (GM-Opel) also reported a decline in sales in 2000 and is downgrading its annual sales forecast for 2001. However, like Fiat, GM exports most of the cars it makes in Poland. By mid-2000, it had invested some US$ 560 million in Poland, and has had success with the Agila microvan launched in 2000, jointly developed with Suzuki and produced at its Gliwice plant. GM-Opel also has a car assembly plant near Warsaw making mid-sized vehicles, and exports to Hungary, the Czech Republic and Turkey.

Volkswagen has a DEM 200 million engine plant in Polkowice with an annual capacity of 540,000 engines and exports 90 per cent of production to 19 Volkswagen assembly plants worldwide. By mid-2000 it had invested some US$ 186 million in four Polish plants, with plans to invest US$ 120 million in Motor-Polska, a subsidiary to be located at the Legnica SEZ, and US$ 30 million in car seat maker Sitech (at Polkowice), in which it has a 49 per cent stake. Its Elektrosystemy company at Gorzów Wielkopolski makes electrical wiring for cars.

Automotive news

Citroen Polska managed to maintain its 1999 sales level in 2000 and ranks as the ninth largest domestic automotive company. The success of the Xsara model has won it 2.6 per cent of the small passenger car market, and the Berlingo has 39 per cent of the combi-van market.
Since closing its Płońsk assembly plant, **Ford** has no manufacturing outlet in the country but has launched the Mondeo model on the Polish market and has established a chain of dealerships. Its most popular model in Poland is the Focus. It continues to cooperate with local sub-assembly suppliers, and in 2000 bought some US$ 250 million worth of goods and services from them.
KIA (South Korea, owned by Hyundai) is considering establishing a plant in Poland, either through take-over of existing plants or by building a new factory. The advantage of a presence in Poland would be to avoid the 35 per cent import duty on non-EU cars. The cost of a new plant is estimated at US$ 1 billion, while taking over an existing one would cost only 30 per cent of that sum. KIA is considering the Mielec SEZ as a location.

Leading investors in the automotive industry, as at 30 June 2000

Investor	Total invested US$m	Planned investment, US$m	Activities
Daewoo (S Korea)	1,552.3	632.0	Shares in over 30 companies incl.: Daewoo FSO Motor (Warsaw), Daewoo Motor Polska (Lublin), Daewoo Electronics & Machines (Pruszków), Dae-Pol Warszawskie Centrum Daewoo, Daewoo Data Communication, Tuk S.A., Fonika S.A., Bdk-Daewoo Leasing
Fiat (Italy)	1,545.9	na	FSM Bielsko-Biała companies: Fiat Auto Poland S.A., Teksid Poland S.A., Magneti Marelli Poland S.A., banking and insurance; total investment including foreign and Polish financial resources amounted to US$ 1.9 bln
Adam Opel (Germany)	560.0	na	Opel Polska (Gliwice) – car production, General Motors Poland Sp. z o.o.
Isuzu Motors (Japan)	192.7	na	Isuzu Motors Polska – construction of a factory in Tychy, investment in Katowice SEZ
Volkswagen (Germany)	186.0	72.7	Volkswagen Poznań, Volkswagen Elektrosystemy, planned investment of US$ 120m in a wholly-owned subsidiary Motor-Polska (Legnica SEZ), 49% stake in Sitech (Legnica SEZ) with planned investment of US$ 30 million
Delphi Automotive Systems (US)	184.0	na	Delphi Automotive Systems Poland – production plant near Warsaw, factory in Tychy (Katowice SEZ), production of shock-absorbers in factory in Krosno, Delphi Packard Electric Systems – electrical charges, Delphi Harrison Thermal Systems – components for heat exchanging

NB These figures may not reflect the full value of in-kind investments, commitments or reinvested profits.
Source: PAIZ

Car parts and components

A large number of investments have been made in car parts manufacture to support the rapid rise of the car making industry. Foreign investors have been given good incentives to develop the sector, and about one-third of the country's 155 large car parts manufacturing firms is foreign owned. The main car makers all have components operations as well as assembly plants, while firms such as Delphi Automotive Systems (US, formerly GM) produce parts only. Delphi has five plants and a R&D centre in Poland, and by mid-2000 had invested some US$ 184 million, while Visteon (Ford) had invested US$ 43 million. Goodyear (US), Bridgestone/Firestone (US) and Michelin (France) each have a tyre plant in Poland, while Isuzu and Volkswagen produce diesel engines locally. Faurecia and Valeo, both of which already have a presence in Poland, announced large investment plans of € 80 million and € 120 million respectively.

Retailing

Consumer behaviour in Poland has changed significantly over the past decade, with rapid growth in the retail sector reflecting new consumer capacity. Poland now has 95 hypermarkets (stores with at least 2,500 square metres of sales area), 730 supermarkets (outlets with over 400-2,499 square metres of sales area), and 936 discount retail outlets. Hypermarkets share about 22 per cent of the total retail market.

Foreign investment in retail has been rapid and extensive. Foreign retailers currently control about 10-12 per cent of the total retail market in Poland. Over the next 2-3 years, they are expected to control as much as 40 per cent of the market. However, consumers have proved less extravagant and more cautious about spending their income than initially expected.

In January 2001 Pinault Printemps Redoute (France), a retail luxury-goods firm, opened the first of a planned 10 Conforama do-it-yourself household supply stores in Poland. The Warsaw store is its first in the region and it is to open two more large retail outlets in Warsaw by the end of 2002.

By October 2000 Tesco (UK), which bought a Polish supermarket chain in 1996, had already invested US$ 4 million into its Polish operations with plans to increase the figure. Tesco is also active in the Czech Republic, Hungary and Slovakia, but regards Poland as potentially the largest market. By the end of 2000 it had 10 hypermarkets in Poland with plans to construct another 20 by the end of 2002.

Other leading investors include Metro AG (Germany), which has invested US$ 598 million and has plans for further investments of US$ 128 million over the next two years in the construction of 30 new retail outlets, IKEA (Sweden), which has invested about US$ 200 million and plans to invest a further US$ 100 million by 2001 in three more outlets, Jeronimo Martins Holding (Portugal), Casino (France), Ahold, Auchan, Carrefour (France), LeClerc, and Tengelman, which operate hypermarkets and retail chains.

Agriculture

Along with environmental protection, agriculture is the most difficult chapter of EU negotiations for Poland. The negotiations began in mid-2000 but have reached a stalemate. Any major change in Poland's position on the agricultural sector is not expected until the forthcoming elections have been concluded.

The agricultural sector reportedly employs about 20 per cent of the labour force, but produces only 5-6 per cent of GDP. While agricultural employment is falling, rural development is a major challenge, which needs to be addressed in the context of the EU accession. It is estimated that hidden unemployment in the agricultural sector totals between 1 million and 1.5 million. This factor increases the importance of investment in rural infrastructure and higher standards of rural education. Most farms are small family farms, lacking modern equipment. The lack of an efficient land market is hindering consolidation of the sector, and privatisation of agribusiness enterprises is incomplete. Since the financial requirements of a non-restructured agricultural sector under the Common Agricultural Policy (CAP) would be substantial, the consolidation of farms, development of the inefficient agricultural land market, large investments in equipment, and removal of domestic market protection are necessary. In addition, agribusiness enterprises produce on a regional basis and in many significant areas do not satisfy EU requirements on food production, in particular in the areas of health and safety and environment. Technical standards related to food quality and hygiene have been the basis for concerns in both the dairy and meat processing sectors. However, there is significant resistance by the farmers to required changes, leading to protests and blockades of roads and border crossings.

The government intervenes extensively in the market, which is highly protected and subsidised, contributing to the high level of inflation. Subsidies are the main bone of contention in the EU negotiations. Poland is stating its willingness upon accession to accept all duties and commitments stemming from participation in the Common Agricultural Policy (CAP), including production limits, as long as its farmers get all CAP benefits from the outset. Thus Poland would be ready to impose limits on its agricultural subsidies in exchange for direct subsidies to its farmers from the EU. However, the EU is equally unwilling to grant output subsidies to Polish farmers as soon as Poland joins the Union. The negotiations have stuck on this point. Poland has committed itself to adopting the EU system of registering farms, plots, cultivated land and animals, and has had EU assistance to implement the integrated administration and control system (IACS), which serves within the EU as a basis for allotting output subsidies. The cost of implementing IACS, estimated at some € 400 million, will be half met by the EU and half by Poland.

While the demands of the accession states are deemed unreasonable, many critics are also calling for modification of the CAP, to reduce direct payments to EU farmers. Polish farmers receive government support of about 20-25 per cent of their income (while equivalent EU support to farmers accounts for 45-50 per cent of income). The overall expenditure needed to adapt Polish agriculture to EU standards is estimated at PLN 25 billion (about US$ 6 billion). The cost will be covered from three main sources: 10 per cent from the PHARE and SAPARD (Special Accession Programme for Agriculture and Rural Development) programmes administered by the EU, 20 per cent from the state budget, and the rest from the farmers themselves and the food industry. The farmers will primarily be required to invest in improving sanitary conditions and meeting veterinary standards. The government has requested a transition period for only the most difficult sectors, dairy and meat production, thus showing its commitment to adjusting its farming sector without delay. It is optimistic that the majority of farms will meet the required standards by the end of 2002. However, some analysts suggest that only around 900,000 of Poland's 2.4 million farms will survive free-market competition in the first years following EU accession.

The World Bank is providing a US$ 100 million development loan to help changes get under way. Along with EU funding of US$ 150 million a year, the money will be used to help raise rural living standards and create alternative employment, by paying for job training, new infrastructure, better local government administration, micro-credits for new businesses and better educational opportunities for rural communities. In November 2000 a law was passed regulating groups of agricultural producers. It enables farmers to form special producer groups aimed at boosting labour productivity and the adaptation of farms to market requirements. The groups can count on public grants for the next five years.

Food processing, beverages and tobacco

The food industry has a promising future, with advanced standards in processing. There is plenty of expectation for increases in domestic demand and also exports. The food industry accounts for some 20 per cent of the added value of the entire manufacturing sector, and some 25 per cent of its total production (compared with 15 per cent in the EU). The industry processes some 50 per cent of domestic agricultural produce. More than 90 per cent of the sector is in private hands, and there is healthy competition among the mainly medium-sized enterprises. Annual investment ranges around US$ 1.5 billion. In the 1990s, some US$ 11 billion was invested, of which US$ 4.6 billion came from abroad. The beer sector has attracted the most foreign investment, followed by the production of tea, coffee, tobacco and highly processed goods. Foreign investors are also showing interest in the meat sector and in fruit and vegetable processing.

Despite ongoing development, profitability in the food industry is currently low. The only firms to be highly profitable are those with the support of strategic investors. The next stage of restructuring is expected to produce a further concentration of processing (especially in the meat and dairy industries)

Leading investors in food processing, as at June 2000

Company	Amount invested, US$m	Activities
Coca-Cola Beverages (UK)	400.0	Four soft drinks bottling plants
Nestle (Switzerland)	334.0	Nestle Polska Holding with shares in: Nestle Polska, Goplana (Poznań), Winiary (Kalisz), Toruń Pacific, Nałęczowianka, Alcon Polska
Harbin BV (Netherlands)	325.9	38.3% of shares of Żywiec Brewery
Heineken	220.8	Heineken Polska, Grupa Żywiec includes Elbrewery Company, Hevelius Brewing Company, Leżajsk Brewery, Warka Brewery
PepsiCo	203.0	10 bottling plants, salted snacks factory, sale of "Delicja" confectionery to Danone
Mars Inc (US)	160.0	Master Foods Polska – pet food & confectionery production

NB These figures may not reflect the full value of in-kind investments, commitments or reinvested profits.
Source: PAIZ

and reduce the number of small businesses. Vertical integration between the food industry and farmers needs to strengthen in order to maintain a stable supply of good quality products. Links with the large retail chains will also need to become firmer.

Twenty food companies are listed on the Warsaw Stock Exchange, of which three increased their share price in 2000. These were confectionery producer Mieszko, and food producers Agros SA and Pekpol. Agros, which produces a wide range of foods, fruit juices and beverages, is now majority owned by Pernod Ricard (France), which increased its stake from 37 to 63 per cent in February 2001. Mieszko, along with the other leading confectioners, Jutrzenka and Wawel, suffered as a result of the Russian financial crisis of 1998 and tried instead to increase their domestic sales, but of the three Mieszko was the most successful, managing to sell part of its production abroad. The confectionery firms are seeking strategic investors to help them enter international markets.

Leading investors in food, confectionery and soft drinks include Coca-Cola Beverages (UK), Nestle (Switzerland), PepsiCo (US), Mars (US), Unilever (Netherlands), and Smithfield Foods (US), which controls Animex, one of the country's largest meat producers. In 2000 Animex started to undergo restructuring and modernisation, with the consolidation of its activities and the closure of two plants. In 2001 the process will continue, with promotion of the Animex brand name on EU markets.

Alcoholic beverages

The official alcoholic drinks market (vodkas, other strong drinks, wine and beer) in 1999 was valued at around PLN 11.8 billion (about US$ 3 billion).

Brewing

The brewing sector has benefited from high levels of foreign investment and is almost fully privatised, with more than 80 per cent of domestic brewing in foreign hands. The main breweries are highly profitable. The investors have modernised the industry and increased output, which grew almost seven times faster than global production in the 1990s. In the first 10 months of 2000 beer sales grew by 7 per cent year-on-year. The market leader is Żywiec Group (owned by Heineken and Harbin, both Netherlands), with a 31.4 per cent share of the market. Second is Kompania Piwowarska (owned by South African Breweries) with a 28.5 per cent market share, followed by Brau-Union (owned by BBAG of Austria), Okocim (controlled by Carlsberg, Denmark) and Bitburger. Most of these investors own groups of breweries that merged as a result of their acquisition. Okocim and Żywiec are listed on the Warsaw Stock Exchange.

Beer sales grew by 6 per cent in 2000, as opposed to 11 per cent in 1999, and are expected to grow by only 3 per cent in 2001 according to analysts who reckon that saturation of the market is the reason for lower sales, alongside higher taxes. Taxes account for some two-thirds of the retail price of beer. Beer excise tax is to increase twice in 2001, firstly to 10 per cent in June and then to 16.5 per cent in September. Beer producers are warning that the increases will have a strong negative effect on beer sales, and will affect small local breweries in particular. Breweries producing up to 200,000 hectolitres of beer pay PLN 6 less excise tax per hectolitre than larger manufacturers, and those producing up to 20,000 hectolitres pay PLN 11 less. Beer is also subject to VAT of 22 per cent.

Market shares of leading investors and their breweries, QI-II 2000

Heineken (Żywiec, Elbrewery, Leżajsk, Warka)	31.3
SAB-EAC (Kompania Piwowarska: Lech, Tychy)	28.0
BBAG (Van Pur, Kujawiak, Browary Warszawskie	7.3
Bitburger (Bosman, Sierpc)	6.4
Carlsberg (Okocim)	6.1
Holsten (Brok)	3.4
Binding Brauerei (Dojlidy)	2.9
Other	14.6

Source: BOSS

Distilling

The spirits industry is undergoing major changes, to be completed in about two years' time once the privatisation process is concluded. A few private, foreign-owned distillers are likely to emerge as the sector leaders. The distilled drinks market was valued at some PLN 5.7 billion (US$ 1.43 billion) in 1999. Vodka has a long tradition in Poland, though vodka consumption has dropped in recent years, almost to the same level as beer consumption, which is rising. The distilling sector is a large recipient of farm production surplus and helps increase the value of farms utilising or owning agri-distilleries. The spirits industry yields 3 per cent of government revenues in the form of taxes (though a decade ago the rate was three times higher).

A state monopoly on spirits production has existed since 1951, when all vodka was made by the multi-plant Polmos enterprise. In 1991 Polmos was split into 25 autonomous distilleries which kept "Polmos" as part of their names. Only 18 of these 26 survived through to 2000, due to the fall in vodka consumption, more rigid fiscal policies on spirits including high excise taxes of 62 per cent of factory price, more illegally sourced liquor on the market, and poor restructuring. Most of the existing distilleries have been reporting losses since 1997, and in 2000 only three were estimated to have been profitable. Excise taxes rose again in February 2001 by 4 per cent.

In July 1999 the domestic distilleries divided up the rights to vodka brands, opening the way to their privatisation. In the second half of 2000 all 16 treasury-owned companies (including a yeast plant and a rectification plant) and five state-owned enterprises were put on sale. Potential investors include the biggest foreign distributors of spirits, keen to purchase a few of the most renowned Polish brands. The three leading enterprises are Polmos Bialystok (maker of Żubrówka vodka), Polmos Poznań (maker of Wyborowa vodka) and Polmos Zielona Góra (maker of Luksusowa vodka). Polmos brands together hold 40 per cent of the entire alcoholic drinks market, including leading vodka brands Luksusowa, Wyborowa and Krakus, followed by Żubrówka.

For privatisation, the distilleries have been divided into four groups, of which one includes only Polmos Poznań, first in line for privatisation. Three potential investors have submitted bids for Polmos Poznań: Pernod Ricard, Bols (Netherlands) and a consortium of Eckes (Germany) and Vin&Spirit (Sweden). United Distillers and Vintners (UK) is interested in Polmos Józefów (maker of Żytnia vodka). A privatisation contract is expected to be concluded by the end of July. The state-owned distilleries will be privatised individually. A privatisation strategy for Akwawit Leszno, the rectification plant, is under preparation.

The issue of export rights to individual trademarks has not yet been resolved. Agros SA, for many years the main exporter, is now majority owned by Pernod Ricard (France), and although the government obliged Agros in 1993 to convey the trademarks to the manufacturers, this has not been done. A law on industrial property rights passed in July 2000 stripped exporters of their rights to trademarks and restored the export rights to the manufacturers. However, Pernod then pushed for the law to be overturned, and the matter has been referred to a Constitutional Tribunal. Restoration of the profitability of the Polmoses will depend on a resolution to the issue of export rights. The main export markets for Polish vodka are the US (48.7 per cent), Germany (9.4 per cent), France (5.5 per cent) and Italy (5.4 per cent).

Wine

Poland has never had a “wine culture”. The Polish wine market is still quite modest, but has great development potential as more and more Poles take to drinking table wine rather than traditional beer or vodka. Legislation is to be adjusted to meet EU requirements for the sector. In the 1950s Poland had its own vineyards and produced wine at the Lubuska Wytwórnia Win winery, but in the 1960s the vineyards were liquidated and the winery went bankrupt. According to Vinpol, a leading maker and distributor of alcoholic drinks, sweet dessert wine is the most popular type of wine among Poles, with sparkling wine rapidly gaining in popularity. Supermarkets have the highest share of wine sales, in terms of both quantity and value. However, more and more specialist shops are appearing in Poland offering a wide range of wines. These shops are more successful at selling high quality, expensive wines than the cheaper kinds.

With no vineyards, manufacture of wine is limited to bottling of wine imported in bulk. The main source of imported wine is Italy (28 per cent), followed by France (27 per cent), then Bulgaria (15 per cent) and Hungary (8 per cent). The three leading suppliers are: Vinpol, based in Toruń and owned by Henkell & Sohnlein Sektkellerein KG of Wiesbaden, with sales of some 22 million bottles of wine, brandy and vodka per year; Ambra, which in 1994 merged with Faber (Germany), the world’s third largest manufacturer of wine, and became the largest wine supplier in central and eastern Europe; and Bartex, which specialises in the import and production of wine, as well as fruit and vegetable processing.

Tobacco

Poland is one of the largest tobacco markets in Europe, and the sector is the largest source of revenue for the state budget. As for beer, excise taxes on cigarettes are also rising, most recently with a 20 per cent increase in January 2001, leading to increased smuggling, which is affecting domestic producers. The cost of cigarettes is likely to rise further as Poland approaches EU accession and the requirement to align its prices with those of the EU. On accession, domestic producers will face strong competition from higher quality EU products.

Most of the world’s leading tobacco companies have invested in Poland, including Reemstma (Germany), Philip Morris (US) and British-American Tobacco. The foreign investors are modernising and restructuring the industry, introducing new brands and building new factories.

Most of the tobacco is home grown, mainly in the Lublin region. Total land under tobacco crops in Poland is 20,000 hectares with an average plantation size of 0.3 hectares. Quality changes announced by the EU are likely to mean that Polish-grown tobacco will not be able to compete with imported tobacco, unless investment can be found to improve farming technology.

Largest investments in the tobacco industry, as at June 2000

Name	Country	US$m	Activities
Reemstma	Germany	465	Two cigarette factories, tobacco cutting facility, planned investment of US$ 140 million
Philip Morris	USA	372	Tobacco factory in Kraków, factory under construction in Leżajsk, planned investment of US$ 80 million
British American Tobacco	International	88	33 per cent of ZPT Augustów tobacco plant
RJ Reynolds	USA	70	Greenfield tobacco factory near Warsaw
Seita	France	64	33 per cent of ZPT Radom tobacco company

NB These figures may not reflect the full value of in-kind investments, commitments or reinvested profits.
Source: PAIZ

Once parliamentary approval has been gained, tobacco advertising is to be eliminated by the end of 2001. At present cigarettes may not be advertised on television, and by the end of this year a ban on print and outdoor advertising will take effect. The new law will not only ban direct advertising but also subliminal promotion. It will be more stringent than EU law, which foresees a ban on tobacco advertising by 2006.

Chemicals and pharmaceuticals

Poland's chemical sector accounts for about 9 per cent of manufacturing sales by value, which is low compared with the EU average of 14-18 per cent. However, it has the potential to modernise and develop. The main sub-sectors are the production of chemicals, chemical products and synthetic fibres (which employ about 80 per cent of the industry's workers), and rubber and plastics. The fertiliser sub-sector is also important, although revenues and profits from it have decreased relative to other products. Foreign investment is mainly in branches making ready-made goods such as pharmaceuticals, cosmetics, household chemicals, paints, varnishes and car tyres, rather than basic chemicals.

Efforts to privatise the chemical industry in Poland are underway and the government hopes to complete the entire process by the start of 2002. The country's four largest chemical manufacturers, Puławy, Tarnów, Kędzierzyn and Police, are at the centre of the privatisation strategy. All four chemical companies have been working hard to implement programmes aimed at restructuring and modernising their facilities and operations, and thus at attracting investor interest. Poland's chemical companies are in need of capital investment in the order of PLN 300-500 million (US$ 75-125 million). Increased investment is crucial if the industry is to develop new infrastructure, improve environmental protection, and become more competitive.

The Treasury Ministry has plans to privatise the Puławy plant in the second quarter of 2001. Puławy is the leading producer of fertilisers in Poland with a 50 per cent share of the domestic market. The company is in the best economic condition, mainly because it is the largest domestic producer of melamine, a chemical used in the manufacturing of paints, synthetic resin and varnishes. The Treasury Ministry has postponed the decision on the privatisation method for the Tarnów plant. The company is looking for an investor interested in the production of caprolactam.

The Treasury Ministry also solicited bids in February 2001 for a 10 to 85 per cent stake in the Kędzierzyn plant, but no western companies showed interest. Polish Ciech, PKN Orlen, Farm Agro Planta and Czech Agrofert were the only companies to submit bids. Kędzierzyn has around 3,000 employees and produces fertilisers, organic chemicals, oxo alcohol and adhesives. Using innovative processes and modern facilities, Kędzierzyn has ISO-9000 certification and produces fertilisers to European quality standards. About 25 per cent of fertiliser production is exported. The government was also accepting bids in February 2001 for a 10 to 85 per cent share in the Police plant. The company produces chemical products and semi-products. The deadline for placing bids was 20 March. In addition, the privatisation of Ciech, the former chemicals/pharmaceuticals monopolist trader and owner of two large soda ash plants, is under way through a private placement.

The sub-sector producing paints and coatings is growing rapidly, at an annual rate of 6.5 per cent. In March 2000 Polifarb Oliwa, a leading producer of shipping and industrial paints, signed a strategic partnership deal with the Japanese firm Chugoki Marine Paints. Polifarb Oliwa has restructured its paint branch and is looking for a domestic investor. The company formerly supplied marine paints to the USSR and other Soviet bloc countries.

Major foreign investors in chemicals/pharmaceuticals, end June 2000

Company	Amount invested, US$m	Activities
GlaxoSmithKline (GSK)	230.4	GSK Poznań (formerly Polfa Poznań) – pharmaceutical production, storage & packaging company in Duchnice
British Oxygen Corp (UK)	180	BOC Gazy, oxygene plant, shares in Częstochowa steel plant – technical gas production
Pliva (Croatia)	154	Pliva Kraków (formerly Polfa Kraków) – pharmaceutical production; planned investment of US$ 16 million
Unilever (Netherlands)	140	Unilever Polska, Pollena Bydgoszcz – detergent factory; fish distribution, 70% of Olmex fats & oil plant; ice-cream production

NB These figures may not reflect the full value of in-kind investments, commitments or reinvested profits.
Source: PAIZ

Pharmaceuticals

During the past 10 years, Poland's pharmaceuticals market has grown rapidly as a result of rising incomes, growing health consciousness and greater demand for higher quality drugs. Annual spending on pharmaceuticals reached US$ 62 per capita in 2000. This level of consumption is comparable to other advanced central European countries, but far from that of the EU (for example, in France the figure is US$ 430, and in Germany US$ 380). However three-quarters of the Polish market is accounted for by relatively inexpensive Polish-made pharmaceuticals. The average price of a packet of medicine does not exceed US$ 1.50 in Poland, whereas in the EU it averages US$ 9. It can be assumed, therefore, that in terms of volume, pharmaceuticals consumption differs only slightly in Poland from the rest of Europe.

According to research by IMS Health (US), the world's leading provider of health care solutions to the pharmaceutical and health care industries, the pharmaceuticals market in Poland is expected to grow to US$ 3.4 billion by 2003 from US$ 2.5 billion in 2000. Imported pharmaceuticals accounted for 70 per cent of retail market turnover in 1999, primarily because of higher demand for over-the-counter drugs. Although locally produced drugs only account for 30 per cent of the Polish market in value terms, they represent 75 per cent of pharmaceuticals purchased given that they are cheaper than western brands.

Polish and EU pharmaceutical producers are in the process of trying to reach an agreement on patent protection for prescription drugs. Poland's generic drug industry could be seriously affected if a compromise is not reached. Many people in Poland in need of medicine rely on the availability of cheaper drugs. Health reforms in 2000 resulted in reduced spending on prescription drugs in favour of cheaper, locally produced generic drugs for which less government funding is required. While favouring cheap local drugs makes medicine more affordable, it also hampers foreign investment, limiting access to quality medication.

While western companies have found it difficult to compete with lower priced domestically produced drugs in Poland, many have become involved in clinical trials and experimental treatments. In 1999, around US$ 75 million was spent by western firms on clinical research in Poland, where costs are lower, physicians are well educated, and laboratories are reliable.

The top 14 drug makers in Poland (formerly known as Polfas) account for 70 per cent of domestic production. The largest are: Polpharma, GlaxoSmithKline (GSK, Poznań), Pliva Kraków, Polfa Kutno, Polfa Warszawa, Jelfa and Polfa Tarchomin. Many companies are eager to enter the more lucrative, unregulated over-the-counter market. Jelfa, Kutno, GSK and Pliva Kraków have had the most success in over-the-counter drugs through the development of new marketing strategies. Consolidation in the pharmaceuticals market is still underway. A 52.5 per cent stake in Polpharma was sold in July 2000 to a consortium of Polish companies including Spectra Management and Prokom Investments. Efforts to privatise Polfa Tarchomin in 2000 failed, with Prokom Investments and Slovenian drugs maker Lek withdrawing their interest. The government plans to make another attempt at privatisation in 2001 through a public invitation to negotiations, and also plans to privatise the smaller Polfa Lublin.

Six companies account for around 60 per cent of the pharmaceutical distribution market in Poland: Polska Grupa Farmaceutyczna (Polish Pharmaceutical Group PGF), Orfe, Farmacol, Prosper, Cefarm Pharmaceutical Authority (CF Cefarm) and Cormay Polska. Pharmaceutical distribution firms, similar to producers, are also undergoing consolidation. PGF acquired six local distributors in 1999 and accounts for 20 per cent of the market. It also merged with Cefarm Poznań in 2000. Tenders for Cefarm Warszawa and Cefarm Kraków were announced in March 2001.

Several distribution companies are in the process of developing wholesale and retail trade via the Internet. Prosper has already created a portal for online sales and signing of contracts, with plans to launch the commercial part of the web site in mid-2001. PGF and Orfe are also working on their own online trading systems.

Existing foreign investors in the Polish pharmaceuticals sector include GSK (UK), which has invested US$ 230 million in the pharmaceutical industry since it began operations in Poland in the mid-1980s, and plans to invest PLN 142 million in 2001 in GSK Poznań and boost the company's exports. Other companies who have bought stakes in regional drug makers include Pliva (Croatia) and ICN (US). In 1999, OPG (Netherlands) also entered the Polish pharmaceuticals market with its acquisition of Orfe, the country's second largest distributor.

Paper and pulp

The paper industry continued to grow in 2000 and has good prospects for future growth. There has been extensive privatisation, and all the largest firms have foreign investors. Paper and cardboard account for over half of output. The industry has attracted significant foreign investment, focused on modernisation of equipment, and many new products have been introduced in the past few years as a result, such as high quality photocopy paper, laser printer paper, soft offset paper, and packaging.

The industry's largest investor, IPC (US), has invested some US$ 465 million. Its Kwidzyn plant produces fine paper and leads in volume, producing almost half of the entire market output. Some 45 per cent of its production is sold in Germany, France and the Benelux countries. In February 2001 IPC announced plans to invest about US$ 35 million to boost production, improve quality and reduce environmental damage. The company has invested about US$ 30 million each year in modernisation. IPC's distribution chain has helped Poland to export to a large number of countries.

Austrian company Framondi's Frantschach Świecie plant is the next largest, with investments of US$ 175 million, and specialises in Kraft paper, used for high strength packaging materials. Through restructuring it has reached a record high net profit for 2000 of PLN 221.4 million (about US$ 54 million), an increase of 154 per cent compared with 1999. In April 2000 Frantschach Świecie announced plans to invest between PLN 300-400 million (about US$ 72-95 million) by the end of 2001 in expanding and modernising its facilities. The programme will include the development of its paper producing machinery and modernisation of its wood storage facilities. Its goal is to boost production volume by 8 per cent per year for the next five years. Sixty-eight per cent of its output is exported to the EU.

Other investors in the industry include fine paper producer Kostrzyń, 99 per cent owned by Sweden's Trebruk, which exports 65 per cent of its output. Sweden's AssiDoman has invested US$ 11 million in developing its share of the packaging market. So far it imports corrugated cardboard made at its plant in the Czech Republic, but in 2001 the company will install new machinery at AssiDoman Corrugated Polska, which will enable the plant to produce its own. International Paper Klucze, Poland's largest producer of paper for hygienic purposes, announced in February 2001 its intentions to make investments aimed at increasing its market share from one-quarter to one-third. The company intends to modernise its plants and production process as well as to develop its distribution network and trademark promotion. Industrie Cartarie Tronchetti S.p.A. (ICT, Italy) is in the process of constructing a high quality tissue paper plant in the Kostrzyń Special Economic Zone. The investment programme will total approximately € 90 million and the plant is likely to be completed by the end of 2001. The plant will sell most of its production to the German market.

The Polish market has also attracted a number of leading Finnish investors, such as Metsa Serla, Akerlund, Rausing and Nefco.

Construction and property

Warsaw's skyline has changed dramatically in the last decade as office towers have sprung up, funded largely by foreign property groups attracted by Poland's imminent EU membership. Nowadays banks are competing to finance new buildings and business parks. As a result of the increased capacity, rents in Warsaw are falling, but Poland is still thought to offer good growth prospects as the largest market in the region. The action is moving from Class A office blocks to Class B, and (less rapidly) from Warsaw to other cities.

Retail development is taking off in Wrocław and Kraków, where Nowe Miasto ("New Town"), a retail, office and residential complex is to be built near the railway station for some US$ 300 million. Another foreign-backed project, Synergia 99, plans to redevelop the iconic Gdańsk shipyard site for business, residential and entertainment purposes. ING Real Estate (part of ING Group, Netherlands) is planning to construct a US$ 230 million office, retail and entertainment complex in the centre of Warsaw as a public-private partnership under which ING provides the financing and Gmina Centrum, the city council, contributes a prime location just behind the central station (which is also to undergo much needed renovation). This will be the first major retail complex in the city centre. Healey & Baker (UK) is the retail broker for the complex, named Złote Tarasy ("Golden Terraces"). Construction is due to start this year and to be completed in 2004, with a multiplex cinema, a hotel, a park with an ice-skating rink in the winter, undergound parking and a terraced courtyard covered by a glass dome. In addition to financing the retail complex, ING also hopes to win the tender (due to begin in 2004) for renovating the station.

Construction

The Polish construction sector is highly fragmented, but the largest construction groups are Exbud, Budimex and Mostostal Warszawa, all of which now have foreign investors, some of whom have increased their holdings in the past year. The increasing presence of foreign contractors and investors is introducing competition and encouraging consolidation. The smaller companies had a bad year in 2000 and many are likely to go bankrupt as the larger firms take over their contracts.

Mostostal Warszawa is 49 per cent owned by Spanish firm Acciona, which increased its stake from 24 per cent last year through purchases on the Warsaw Stock Exchange. Engineering firm Elektrim owns a 28.5 per cent share. Ferrovial (Spain) has acquired a 58.5 per cent stake in Budimex. Budimex specialises in industrial construction and has shares in several other firms. Skanska (Sweden) owns a 75 per cent stake in Exbud and is helping it to restructure, as well as providing financial back-up to bid for large contracts. Exbud is to build a Warsaw headquarters for Raiffeisen Bank (Austria).

Consolidation has been taking place among the larger firms, for example with Budimex's purchase of 60.17 per cent of Mostostal Kraków, followed by their merger. Budimex has further merger plans. Consolidation will allow companies with foreign investors to gain control of the larger market shares, as well as access to technology and modern management.

Construction materials

To support the growing construction sector, there is a lively construction materials industry. There has been extensive foreign investment, and further privatisations are likely to increase foreign involvement. Planned motorway construction projects offer huge potential for cement and other materials producers. The cement industry is especially strong, with annual output of over 14 million tonnes. However, it requires modernisation to reduce costs.

The cement sector is almost completely privatised. The last state-owned cement plant, Cementownia Wejherowo, is to be sold to Swiss cement giant Holderbank. At the end of January 2001 the company had already obtained permission from the Treasury Ministry and local authorities and was awaiting approval from the ministry of the interior. At the end of 2000 Holderbank acquired Cementownia Wysoka. The two plants give the Swiss firm a 2 per cent share in the Polish market. The market is led by Heidelberger/CBR (Germany) with 23 per cent, Lafarge (France) with 22 per cent and CRH (Ireland) with 19 per cent.

Lafarge (France) has invested heavily in the Polish construction materials industry. It has already invested some US$ 357 million and in November 2000 announced plans to invest an additional US$ 252 million in Poland by 2003. Investment in cement production alone will total US$ 150 million, of which the most important project will be the construction of a modern production line at the Cementownia Kujawy mill. The line will cost US$ 80 million to build and will have an annual capacity of 1.6 million tonnes of cement, 40 per cent more than the current line. Lafarge also intends to modernise its Małogoszcz and Wierzbica cement mills. However, Wierzbica will no longer be a cement plant but will focus on dross processing.

In March 2000 Pilkington (UK), which has owned and operated Pilkington Sandoglass, Poland's first float glass plant, since 1995, bought a further share of 18.4 per cent in the company, raising its stake to 75 per cent. Pilkington has invested some US$ 200 million in the plant. Annual exports total 18,000 tonnes, mainly to eastern Europe, Germany and Finland. Pilkington has also invested US$ 40 million in a car glass plant in Sandomierz, which opened in October 1999, with an annual capacity of 700,000 car glass products, mainly for sale to domestic car makers.

In December 2000 Pilkington announced plans to establish a new car glass factory in the Kamienna Góra Special Economic Zone in a joint venture with Saint Gobain (France). The plant would incorporate the latest technology in float glass production. It is to have an annual capacity of 260,000-290,000 tonnes and is expected to employ 130 workers. The new plant is expected to cost US$ 114 million and is scheduled to begin operating in early 2003.

Saint Gobain has a number of Polish operations, including Gullfiber Polska, which makes glass wool at a newly modernised factory in Gliwice. Saint Gobain invested over US$ 50 million in the new production line. Its investments total over US$ 300 million, mainly in the glass and construction materials industries.

Information Technology and e-commerce

In July 2000 the Sejm approved a resolution On Building a Foundation for Further Development of the IT Sector in Poland. The resolution called for a strategy to develop the sector, examining common country wide access to the Internet, IT education programmes for all ages, the availability of IT services to SMEs, and utilisation of IT services in the health, environmental protection and transport spheres. It also called for action to introduce legislation to facilitate e-commerce, such as laws on electronic signatures (see below), electronic documentation protection, information security, cryptography, data protection and enforcement of contracts finalised via Internet and telecom networks.

E-commerce is set to develop in Poland. An estimated 60 per cent of Polish companies have their own web sites, and more than 10 per cent use the Internet for business purposes. However, there are technical barriers and legal obstacles in the way of e-commerce. In February 2001 an electronic signature bill was approved by the government and is to be reviewed by the Sejm. This law is likely to be passed by July, and may take Poland a step further towards e-commerce by making it possible to use electronic signatures to sign contracts conducted via the Internet. Security remains a key concern for Internet users. This law is expected to give a boost to electronic banking in particular.

There are numerous vertical portals in existence, as well as numerous B2B operators, many of which are aimed at SMEs. Centrum Handlu Internetowego (CHI), an on-line shopping centre venture formed by publishing giant Agora (see *Media* below) and Computerland, started operations in January 2001 and aims to attract 1,000 e-stores and control 20 per cent of Polish e-commerce by the end of the year. CHI will offer small and medium-sized shops and companies with an opportunity to go on-line without having to invest in expensive technology. CHI will provide them with secure clearing and payment systems and act as intermediary with logistics companies handling delivery of goods. Agora and Computerland each invested initial capital of PLN 6 million and will invest up to PLN 15 million in the first year of CHI’s operations. Computerland will be responsible for designing and implementing software for the project and will provide web hosting services. Agora will be responsible for the sale of CHI’s services, using its own sales network.

Poland is still comparatively underdeveloped in the use of IT. There are eight personal computers per 100 households, compared with 39 in the UK and 30 in Germany. The number of computers used by Polish companies and public sector institutions is also low, at 18 per 100 employees (as opposed to 40-60 in developed European countries). The IT market grew by an estimated 20 per cent in 1999, and is expected to grow at the same rate each year up to 2006. There is a shortage of experienced staff in companies both offering and buying IT services, and those who do have specialised IT skills are tempted to work abroad, although many employees have very little mobility. Poland’s telecoms infrastructure is also not well enough developed to support IT development sufficiently and until telecoms are fully liberalised this will remain an obstacle. However, the market is gradually maturing, with increasing sales of computer programmes and IT services. Hardware sales are also expected to continue to increase, though at a slower pace than software and services. The largest clients of Polish IT companies are in the banking and financial sector, industry, and telecoms, which together account for more than half of the IT market.

The number of Internet users in Poland was expected to exceed 2.1 million in 2000 (5.4 per cent of the population), and to rise to 4 million in 2003. Access to the Internet in Poland is expensive, some 50 per cent more than the average for OECD countries (but lower than in the Czech Republic and Hungary). Web portals are mushrooming, mainly supported by advertising.

Softbank SA is one of Poland’s largest IT companies and controls a pool of Internet companies. In February 2001 TDC Internet, the Internet arm of Tele Danmark, acquired a 51 per cent stake in Net2Net, Softbank’s Internet holding arm, for € 23 million with an 18-month option to buy a further 24 per cent. Net2Net, soon to be renamed Zillion, includes six companies from the Softbank group. TDC and Softbank plan to invest some PLN 200 million (US$ 48.4 million) in the company over the next three years. Softbank specialises in the delivery of software and IT solutions for the banking and insurance sectors and public administration. Softbank also owns an Internet portal, expander.pl, and newly established NetPower, a joint venture with Computer Associates to provide application software and services via the Internet. Softbank has also signed letters of intent for a strategic partnership with Microsoft and Oracle to cooperate in design, development and implementation of software solutions for clients in Poland and the region.

In February 2001 Interia was the first Polish Internet portal to go public on the Warsaw Stock Exchange. At the same time venture capital firm MCI was also listed, which has five Internet as well as other technology-based firms in its portfolio. It is hoped that this will encourage more Internet firms to tap the local equity market. MCI plans to invest up to PLN 60 million (US$ 13.6 million) in technology companies in the early/seed capital phase in 2001 and is expected to tap the markets for further financing in the near future.

Tourism

Poland's tourist choices are very wide-ranging, from the sandy beaches of the Baltic coast to skiing resorts in the Tatra Mountains. There is scope for all sorts of active holidays, such as mountaineering, speleology, ballooning, hang-gliding, horse riding, hunting, sailing, canoeing, walking, fishing, camping, or for rest-cures at specialist sanatoria, and also for more intellectual pursuits such as visiting the many places of historical and architectural interest (ranging from mediaeval castles to Second World War sites), museums and galleries. Poland has an extensive cultural tradition of music, theatre, literature and art. There are also a number of national parks, home to rare plants, birds and animals, lake lands and forests. Kraków, Toruń, Warsaw and Gdańsk have historical city centres, of which the former two are UNESCO World Heritage Sites and the latter two are notable for their perfect reconstruction after the Second World War. In 2000, Kraków was nominated a European cultural capital, and refurbished its hotels in anticipation of the millennium traffic. Poland now has good tourist infrastructure, including a reliable transport network, hotels of all classes and plenty of restaurants. It also offers tourists original and affordable souvenirs, such as glassware, tableware and jewellery.

In 1999 Poland was the ninth most visited country in the world, with 17.9 million overnight visitors. The number of overnight visitors (17.7 million) remained at nearly the same level in 2000. Most visitors to Poland however, come for primarily business reasons. Revenues from tourism total over US$ 8 billion each year. In January 2000, the government created the Polish Tourism Organisation (POT) to develop tourism in Poland. POT is responsible for improving cooperation between different levels of central and local government and organisations active in the industry. Greater investment in facilities and information continue to be needed to realise the industry's full potential. Heavy investment in hotel accommodation has been underway over the past year (see box). A drawback for the industry is the

Hotels

In August 2000, a consortium led by Accor (France) acquired a 35.4 per cent stake in Poland's largest hotel owner and national travel agency, state-owned Orbis. Accor, together with Globe Trade Centre, a Polish property development company, and Deutsche Bank subsidiary Fic Globe (Germany), paid US$ 133 million for the stake. With this sale, only 6 per cent of shares continue to be owned by the state Treasury. Accor, which has a 20 per cent stake in Orbis, has plans to merge its local hotels with the Orbis network by the end of 2002. In February 2001, the company announced its intention to eventually double its stake in Orbis to 40 per cent. Accor, which owns the Novotel franchise, has a 10-year nationwide development plan to build Ibis hotels. Four Ibis hotels are currently operating in Poland. Orbis has 56 hotels in 26 cities, most in central locations, representing 40 per cent of the Polish hotel market and making it the largest listed hotel chain in central Europe. The company's annual profit is around US$ 20 million. Orbis has been undergoing restructuring and modernisation at a total cost of some US$ 225 million over five years, with a further US$ 69 million allocated to construction of new premises by 2002. A franchising agreement signed with Accor in 2000 allows Orbis to use premium hotel brand names such as Ibis, Mercure, Novotel, Sofitel, Etap and Formule 1 after upgrading 29 of its existing hotels. Orbis spent US$ 73 million in 2000 to modernise hotel facilities and plans to spend the same amount in 2001. Orbis also has plans to build a new chain of two-star hotels (using the Etap name) along future motorways starting in 2002.

The first international hotel group to operate a hotel in Poland was Marriott (US), which opened its central Warsaw skyscraper in 1989. Joint ventures with foreign hotel operators since then include the Sobieski, Le Royal Meridien Bristol, the Mercure and the Sheraton (all in central Warsaw). Currently under construction, the Hyatt Regency Warsaw is due to open in May 2001. A project to build a new Radisson SAS hotel in Warsaw is also underway with developer Skanska.

Now that the five- and four-star hotel markets are well served, investors (particularly Accor and Orbis as described above) are looking towards the less developed two- and three-star markets. Dorint AG, a German hotel chain, has finished building a hotel in Wrocław and has plans for four more in Warsaw, Poznań, Gdańsk and Kraków. Holiday Inn also has plans to expand its activities in Poland. Global Hotels Development Group Poland (GHDGP), developer of Holiday Inn hotels, plans to expand the number of hotels in Poland from three to 14 by 2005. It is targeting Kraków (with a hotel to be finished by mid-2001), Warsaw, Wrocław, Poznań and Gdańsk for its new hotels. GHDGP also won a tender in 2000 for the construction of a hotel at Warsaw's Okęcie International Airport, which it hopes to complete by the end of 2002.

government's plan to reduce funding for tourism development to PLN 40 million (US$ 10 million) in 2001, down from PLN 52 million (US$ 13 million) in 1999.

Heavy industry

The heavy industry branches of the economy have been undergoing much needed restructuring in an effort to restore them to profitability and prepare them for competition on the European market. However, in view of the sensitivity of making large-scale cut-backs, the process has been slow, there is still much to be done and the outcome remains uncertain. Privatisation seems set to make better progress than in the past. Shipbuilding has undergone a natural restructuring process and emerged as a healthy industry.

Steel

In 2000, Polish steel mills produced 10.6 million tonnes of steel, a better performance in line with the recovery of the steel industry worldwide following the recession of 1999. The downsizing of the steel sector is continuing, with the number of workers falling rapidly (from about 87,000 in 1997 to 30,000 by 2003). So far the workforce has been reduced to 38,000. The government's current restructuring plan for the sector calls for major investment in flat steel products with no cuts envisaged in the output of long products. The European Commission disagrees with this plan and is calling for Poland to present a new plan as an important condition for completing, by the end of 2001, competition policy accession negotiations. Under the Europe Agreement, the government cannot lend public assistance to the steel mills without the EC's consent. The EC is concerned that the current plan would mean an actual increase in total output to roughly 13 million tonnes of rolled products per year, and would like to see a decrease in long product output, reducing total output to some 10 million tonnes. The EC also wants the new restructuring plan to guarantee that the steel mills will soon become profitable, and to take into account the social cost of redundancies, and the cost of adjusting steel production to EU environmental norms.

An important event in 2000 was the failure of Huta Katowice, the largest steel mill, to attract strategic investors, following the withdrawal of the Anglo-Dutch group Corus from a planned joint production venture. This compounded the mill's financial difficulties, leading the government to organise a bail-out plan for the ailing firm. The privatisation process of the largest steel mills was subsequently re-launched.

Under the privatisation strategy for the four main mills, Huta Sendzimira, Huta Florian, Huta Cedler and Huta Katowice, which together account for some 70 per cent of domestic output, investors are offered the opportunity to invest simultaneously in a wide package of metallurgical industry assets, and in particular in the largest steel plants. Preference will be given to the more comprehensive offers (i.e. those covering the greater part of the package, or the entire package).

The Treasury Ministry plans to consider bids from investors by June 2001, and hopes to choose the winners by the end of the year. The company Ispat is rumoured to be interested, as well as ThyssenKrupp (Germany), Arbed (Luxembourg) and Usinor (France) acting in a consortium. Huta Katowice is the largest and most troubled of the mills, but the government is determined to save it, because of its position at the start of the production chain as the supplier of low-end steel semi-products (i.e low value-added long products), whose bankruptcy would harm the entire sector, as well as its struggling state-sector creditors (PKP railways, coal trader Węglokoks and local energy producers). Huta Sendzimira, the second largest mill, which makes higher value-added flat products, is a good prospect, following a restructuring programme. Of the mills on offer, it is in the best financial condition, having changed its management and sales methods, undergone computerisation and heavily reduced its workforce.

If no investors are found this time, the government plans to restructure the sector on its own. A restructuring programme for 2001-05 is to be elaborated by the plant's management in cooperation with the Treasury Ministry and the Ministry of Economy, covering financial and asset restructuring, further operational restructuring and a development strategy for the years ahead. However, the main obstacle will be the lack of finance, as the investment needs are massive and the sector is heavily indebted. A painful reduction of capacity will also have to be implemented.

Shipbuilding

Poland is now the world's fourth leading shipmaker with a US$ 4 billion order portfolio and, unlike its main competitors in South Korea, Japan and the EU, does not subsidise production. This will be an advantage when EU plans to end state aids to shipyards by 2004 go into effect. In the mid-1990s Polish shipyards suffered a crisis through loss of orders from the Soviet Union, formerly its main market, and as a result of the general economic difficulties of the early transition years. Since then, the sector has undergone restructuring, without foreign investment.

The main shipyards are at Gdynia and Szczecin. Both are controlled by their management as a result of successful MBOs. Following the bankruptcy of the famous Gdańsk shipyard, scene of the birth of the Solidarity trade union, the neighbouring Gdynia yard bought what was left of it, since when employment levels have increased by 50 per cent to 3,900 workers. Gdynia is now trying to invest abroad by buying Finland's Masa-Yards from its UK-Norwegian owner, Kvaerner. This would give Gdynia a foothold in a cruise shipmaking yard, allowing it to adjust its output to demand on the global market. Like the Szczecin yard, Gdynia plans to tap capital markets and consolidate further to offset Poland's rising labour costs. Gdynia has contracts for 61 ships for US$ 2.2 billion through 2004, and plans to list at least 15 per cent of its shares on the Warsaw and London Stock Exchanges in 2001. It showed a net gain of US$ 5 million in 1999 and 2000. Gdynia plans to gain control of the small shipyard Stocznia Północna where it already has a 27 per cent stake. Jointly with the Szczecin shipyard it plans to buy into the ship engine maker H. Cegielski.

The Szczecin shipyard is in a more isolated location near the German border, and plans to diversify into the energy sector by building a fuel terminal, to protect itself from the cyclical ship market. In 2000 its net profit fell to US$ 2.5 million from US$ 5.9 million because of its vast dock modernisation programme. Both shipyards benefit from world-class in-house design teams, while many of their competitors have to hire costly design services from outside.

Oil refining and petrol retail

PKN Orlen, Poland's leading refinery group, includes the large Petrochemia Płock refinery and petrol retail chain CPN, and holds some 70 per cent of the market. The Płock refinery produces petrochemicals and is Europe's tenth largest, following an extensive investment programme that will ultimately result in a 41 per cent increase in throughput from 1998 levels. The refinery and the CPN retail chain were merged into PKN in 1999 to create a more attractive prospect for privatisation. Following a heavily oversubscribed IPO in November 1999 to sell 30 per cent of PKN, a further 26 per cent stake was sold in 2000, and thus 71.5 per cent of the company remains in free-float on the Warsaw and London stock exchanges. In 2000 the company was renamed PKN Orlen. With a market value of some US$ 1.9 billion, PKN Orlen is Poland's third largest listed company. Currently, through state oil holding company Nafta Polska the state Treasury still owns the remaining 28.44 per cent. The government has not yet decided whether the next tranche of shares will be offered in 2001.

Hungarian oil and gas group MOL and Austrian petrochemical conglomerate OMV are in talks with PKN Orlen about possible cooperation in the Polish fuels market. MOL is also one of the bidders for an up to 75 per cent stake in medium-sized oil refinery, Rafineria Gdańska. The second bidder is a consortium formed by the UK-based Rotch, private retailers Konsorcjum Gdańskie and three Polish banks. With a capacity to process 4.5 million tonnes of crude oil per year Rafineria Gdańska is expected to provide a good basis for expansion into the Polish market. It has a network of over 200 petrol stations located mainly in the northern part of the country.

It has also been reported that PKN Orlen itself is interested in Rafineria Gdańska, but market regulators fear that such an acquisition would give PKN Orlen a monopoly and the government has forbidden PKN Orlen from placing a bid. PKN Orlen also has plans to expand in the region and is reportedly investigating possible acquisitions. In February 2001 PKN Orlen and France's TotalFinaElf broke off talks that would have led to PKN's acquisition of half of Total's east German Leuna refinery and its network of some 300 petrol stations for about US$ 1 billion. Reportedly, the deal fell through because of Polish political opposition, but there were also rumours that Total's original deal to buy the Leuna refinery might have involved corruption within Germany. Other reports talk of PKN Orlen, MOL and OMV (Austria) planning to create a large regional company in central Europe. In any case, PKN Orlen is seeking a strategic alliance before its vulnerable free-floating stock can be bought up by any unwelcome bidders. PKN Orlen is the region's largest oil company, with the capacity to refine 13.5 million tonnes of crude per year. It also owns a 19.61 per cent stake in mobile phone franchise operator Polkomtel, a strong value driver for PKN.

Restructuring plans are being prepared for three smaller southern Polish refineries, Glimar, Jasło and Czechowice. The three refineries, gradually switching into the production of lubricants and oil-based niche products, jointly processed nearly 875,000 tonnes of crude in 2000, gaining some 5 per cent of the domestic refining market.

Rafineria Czechowice has been split into several autonomous entities but no decision has yet been taken on whether they will be sold off or left to operate independently. Rafineria Glimar, at present unable to compete with giants such as PKN Orlen or Rafineria Gdańska, is planning to construct an oil processing unit at a cost of € 100 million by the end of 2004. A banking consortium headed by Bank Przemysłowo-Handlowy will cover

80 per cent of the costs. The new unit will enable the refinery to produce new types of solvents, kerosene, engine lubricating oils and low-sulphur diesel fuels, giving it a competitive advantage.

PKN Orlen's chain of petrol retail stations gives it some 30 per cent of the market, while its competitors include BP Amoco (UK-US) and Statoil (Norway), both of whom are expanding their Polish networks. Other foreign presences include Shell, Aral and Preem (Sweden). The majority of Poland's almost 7,000 petrol stations are held by small, independent owners.

Natural resources

Poland is one of the world's leading producers and exporters of hard coal, sulphur and copper (with silver as a by-product). In 1998 proven reserves amounted to 50.9 billion tonnes of hard coal, 14.1 billion tonnes of brown coal, 629 million tonnes of sulphur, 80.4 billion tonnes of mineral salt, 2.6 billion tonnes of copper and 193 million tonnes of zinc. There are also significant resources of lead, natural gas, and other minerals besides salt.

Coal

Coal accounts for 90 per cent of Poland's primary energy production and over 70 per cent of total consumption. Hard coal (mostly bituminous) and soft coal (lignite) provide nearly all the fuel consumed in Poland's power plants. Coal exports, mainly to Europe and the former Soviet Union, have in the past been a major source of foreign exchange. Hard coal reserves of an estimated 65 million tonnes are located in Upper Silesia, the Wałbrzych and Lublin regions. Deposits of brown coal (lignite) are located in central and south-western Poland.

The government is implementing a coal sector restructuring and downsizing plan with the assistance of the World Bank, in order to meet EU accession requirements. The focus of restructuring is on closures of unprofitable mines, reduction in the workforce, financial restructuring, strengthened management and environmental improvements. Due to higher than expected losses and redundancy packages for laid-off miners, the total costs to the budget exceeded 0.5 per cent of GDP in 1999. The combined net loss of the coal sector more than halved in the first half of 2000 to PLN 1.2 billion, while output stood at 76.5 million tonnes, according to government estimates. However, there is much progress yet to be made before the coal sector can become profitable again.

The structural reform programme initiated in January 1999 and financed by a US$ 300 million World Bank loan aims at maximising efficiency. Fifteen mines are to be closed by 2002, and nine more partially closed. Three were closed in 1998, and three more in 1999. Altogether, 30 of the country's original 53 mines are likely to be closed by completion of the programme. Production will be gradually reduced to 110 million tonnes in 2002, 90 million tonnes in 2010 and 80 million tonnes in 2020. Employment will be reduced from the current 157,000 to a total of 128,000 by the end of 2002 through early retirements and generous voluntary severance packages. These have been oversubscribed, using up the funds set aside for this purpose and putting strain on the state budget. This and general anger at the lay-offs have provoked protests by miners, following which the government agreed to top up the severance pay fund and to guarantee work at other mines for those employed at closed mines for which severance pay is unavailable. Incentives are being provided for economic development in the most affected areas.

A pilot privatisation scheme aims to privatise two coal mines, at Bogdanka (the only profitable mine) and Budryk. In December 2000 the long-delayed privatisation was initiated with the launch of a tender to sell 10-45 per cent of coal mine KWK Bogdanka. By early March the list of bidders included CSFB Advisory Partners (US), state-owned power generator Kozienice, Ekopal Ltd., and a group of Bogdanka's managers. Due diligence is to be conducted by the end of April. The privatisation process for KWK Budryk is ongoing, with pre-privatisation studies currently being prepared.

Copper

In December 2000 the Treasury Ministry postponed the sale of a further 10 per cent stake in copper and silver mining and smelting group KGHM Polska Miedź, citing weak market conditions. The stake is now due to be sold in 2002. KGHM has been undergoing restructuring and has diversified into telecommunications. It has been selling off units unrelated to copper and is expected to seek partners for telecoms operations. KGHM is the world's second largest copper firm, and in 2000 produced some 486,000 tonnes of copper and 1,120 of silver. The state Treasury still owns 49.6 per cent of the company. KGHM is considering expanding overseas and has begun talks with potential foreign partners. Banker's Trust Company (US), which owns 20.97 per cent of KGHM shares, is reportedly planning to reduce its stake.

KGHM owns local fixed-line telephone service Telefonia Lokalna, a 19.5 per cent stake in mobile phone firm Polkomtel, and recently announced plans to invest in a television station.

It is also active in copper mining in the Congo, and has plans for projects in Zambia and Chile. Telefonia Lokalna, known by the brand name of Dialog, operates fixed line telephone services in the Wrocław and Łódź regions, and is making a loss as it rolls out its infrastructure. KGHM, which recently acquired a 50 per cent stake from the Polish Power Grid company (PSE), expected to sell it at a profit after two years. Today, KGHM is looking for an investor not only to alleviate the financial burden of its large capital expenditure, but also to keep to the terms of its purchase agreement with PSE.

Oil and gas

There has been little progress in restructuring of the gas sector. A privatisation plan for Polish Oil and Gas Company (PGNiG), the dominant state-owned gas company, has yet to be agreed. Although the price of gas has been below cost recovery, price increases set by the regulator, the Energy Regulatory Authority, at 12.5 per cent a year have not matched international gas price increases. Recently, the new tariff regulation issued by the Ministry of Economy has opened up the possibility of adjusting gas prices to the cost of imported gas. As a result, PGNiG received the permission of the Energy Regulatory Office to increase gas prices by 14 per cent in March 2001. There is a tentative agreement on separation of generation/production, transmission and distribution. However, it is unlikely that the gas sector will be liberalised in the medium term.

The Treasury Ministry’s latest plan for the privatisation of PGNiG involves dividing it into six companies and selling gas distributors separately. The state will retain control of its strategic pipelines and storage facilitis for at least five years. Details of the plan are due to be finalised in spring 2001. According to the EC, liberalisation of gas services may postpone the completion of energy negotiations with the EU.

The government has recently undertaken to diversify the sources of gas imports in order to comply with EU requirements. Discussions are being held with the Norwegian government and Statoil on annual imports of 5-10 billion cubic metres of gas per year. The plans include construction of a new pipeline from Norway to Poland. Alternative projects are also under consideration, including an LNG terminal at Szczecin (with a capacity of 2-5 billion cubic metres per year) and a pipeline connecting Poland with the German gas distribution system.

FX Energy Inc. (US) is the first western company to produce and sell gas from a discovery in Poland, the Kleka-11 well. In collaboration with PGNiG it has a 49 per cent interest in a block of 10 gas fields in western Poland with combined reserves of 1.3 trillion cubic feet, and recently concluded a contract to sell the gas to PGNiG. Gaz de France has signed an agreement with Polish offshore operator Petrobaltic to explore and produce gas from under the Baltic Sea. Gas reserves off the coast are estimated at some 7-10 billion cubic metres. Gaz de France and Electricite de France hold a 45 per cent stake in the Wybrzeże combined heat and power complex (see *Energy* below), which is likely to be converted to gas by 2005-06, and could be the destination for gas recovered from offshore fields. Gaz de France has expressed interest in the privatisation of PGNiG. Another interested party is Ruhrgas (Germany).

Energy

There are 17 power plants, 19 combined heat and power plants (CHPs), 33 distribution companies and the Polish Power Grid (PSE). These companies are valued at an estimated PLN 33 billion (US$ 8.10 billion) and are gradually undergoing privatisation. By February 2001 three power plants and six CHPs had been sold, with the government aiming to complete the sales by the end of 2002. Consolidation is expected to follow, ultimately creating a few large integrated power groups.

Privatisation of other electricity generating and distribution companies is ongoing, though more slowly than expected. Their sale is expected to be completed within the next 12 months, though the 2002 deadline may prove hard to achieve. Most companies are to be sold to strategic investors, including at least 20-45 per cent of shares in every CHP, 20-35 per cent of power station stock and 20-25 per cent of every distributor. The sales will raise financing for investment without necessitating massive energy price rises. The government is considering a proposal from the Treasury to allow investors to buy majority stakes in generation and distribution companies in the first stage of privatisation and to bring some privatisations forward (especially of generation companies), in order to speed up the process, which has suffered from delays. The proposal does not change the previous plan for the Treasury to retain a 25 per cent plus one share stake in the firms for 8-10 years. The Treasury is not planning any administrative consolidation in advance of privatisation.

The power market is dominated by long-term contracts, currently covering about 70 per cent of demand and 50 per cent of generating capacity, which have been holding up full liberalisation. Agreed at high prices in the early 1990s, these power purchase agreements (PPAs) were signed with the PSE for up to 15 years

Power generation privatisation news

- Following a failed privatisation attempt in 1998, a 20 per cent stake in the **Pątnów-Adamów-Konin** (PAK) group of plants was sold to engineering giant Elektrim in March 1999, which promised to raise PAK's capital by US$ 100 million and initiate a 10-year investment programme.
- A privatisation agreement for the sale of 35 per cent of the **Rybnik** power plant was recently concluded. The exclusive right to negotiate has been granted to a consortium of Electricite de France and Germany's Energie Baden-Württenberg (EnBW). Rybnik produces some 8.3 million MWh per year.
- Privatisation of the **Belchatów** power station is to be sold along with the neighbouring Belchatów lignite mine, its main source of fuel. Ideally the plant and the mine will be sold to the same investor. Pre-privatisation studies are currently under way. Belchatów is Europe's largest lignite-fired power plant and accounts for 20 per cent of all power generated in Poland.
- Because of the slow pace of previous privatisations, the Treasury is proposing to offer four plants for sale in 2001 that were originally scheduled for 2002, namely the Stalowa Wola, Ostrołęka and Kozienice power plants and the Zespół Elektrowni Dolna Odra power plant group. Ideally, the Ostrołęka, Kozienice and Dolna Odra plants will be sold to a single investor. The Skawina plant was put on offer in February 2001.
- In February 2001 agreement was reached for the sale of a 45 per cent stake in **Elektrociepłownia Białystok** CHP to French power generator SNET for € 49 million, with a pledge to invest a further € 55 million. SNET is likely to raise its stake to 52.3 per cent over the next two years though a € 16 million capital increase. SNET is also planning further acquisitions in the Polish CHP sector.
- Fifty-five per cent of shares in **Elektrociepłownie Warszawskie**, the Warsaw CHPs, were bought by Vattenfall (Sweden) for US$ 218 million in February 2000, with a pledge to invest US$ 600 million over the next decade. Elektrociepłownie Warszawskie operates five CHPs and holds 24 per cent of the Polish heating market and 3 per cent of the electricity market.
- Eight CHPs are slated for privatisation in 2001,with those in Zielona Góra and Tychy first on the list after Białystok. There are two bids for the Zielona Góra CHP and negotiations are now ongoing. The transaction is expected to be completed in the first half of 2001. Three companies have been shortlisted for the Tychy CHP. Stakes in the CHP plants at Bytom, Łódź and Zabrze are to be offered in the second half of the year. Torún's two CHPs are to be sold as a package with up to 45 per cent of shares on offer. The privatisation is expected to be completed in the third quarter of 2001. Together the two plants have generating capacity of over 450 MW. The investor's major undertaking will be to construct a gas-steam block.
- Of the smaller power plants, Wrocław-based Kogeneracja has been privatised through two IPOs, with **Electricite de France** (EdF) buying half the latest share issue made in November, bringing its stake in the plant to some 30 per cent. EnBW is also a shareholder, and the Treasury's stake has come down to some 36 per cent. EdF was the first foreign investor to buy a state-owned power company in Poland when it gained control of Elektrociepłownia Kraków CHP in 1998. In 2000 a consortium led by EdF bought a 45 per cent stake in Zespół Elektrociepłowni Wybrzeże CHP group, which EdF plans to convert from coal to gas by investing some US$ 130-150 million by 2005-06. It also plans to increase its stake to over 50 per cent through a € 12 million capital increase, as part of a € 163 million investment programme to develop and modernise the plants. Wybrzeże supplies over 50 per cent of the industrial heating and power to the Tri-City of Gdańsk, Sopot and Gdynia. With its new purchase of the Rybnik power plant, EdF is now a major player on the Polish energy market.

Privatisation of the distribution sector

In February 2001 Swedish electricity giant Vattenfall bought 25 per cent of Górnośląski Zakład Energetyczny (GZE), Poland's largest regional distributor, for € 167.5 million. GZE joins a portfolio of Polish companies in which Vattenfall has interests, including a 55 per cent share in the Warsaw CHPs, 34 per cent in the Ustka heat utility and 23 per cent of the Ostrowiec heat utility. Vattenfall is to increase GZE's share capital by € 165 million within two years and to buy additional shares for a further € 187.87 million, as well as to invest a minimum of € 260 million over the next two years and a total of PLN 2.8 billion over the next 10 years. GZE has about 12 per cent of the Polish distribution market.

A total of thirteen distributors are to be sold in 2001, including the G-8 group (consisting of the distributors in Gdańsk, Toruń, Słupsk, Płock, Elbląg, Olsztyn, Kalisz and Koszalin), the Warsaw distributor STOEN and the G-4 group (consisting of four distributors in south-eastern Poland, covering Zamość, Lublin, Rzeszów, Kielce and Radom). Thus almost 51 per cent of the distribution potential should be partly in private hands by the end of the year. So far, G-8, for which the tender was launched in December, has drawn the interest of 10 bidders including Eon Energie and RWE Energie (both Germany), Elektrim, Electricity Supply Board (Ireland), Electricite de France and Elektrabel (Belgium). The privatisation is expected to be completed by the end of 2001. G-4 has the added attraction of having access to cheap energy from Ukraine.

and were used by the power plants as collateral for modernisation credits from banks. Investors will be expected to pay off the debts of privatised companies, paving the way for a scrapping of the PPAs. A compensatory fund is to be launched in the middle of 2001 when the PPAs will come to an end, opening the way for a competitive market (see *Regulatory issues* below).

Another problem for the power sector is that the environmental standards in energy companies are low. The negotiations on EU accession may imply sizeable expenditures on environmental upgrades, while energy sector liberalisation will adversely affect the repayment capacity of power companies in need of substantial investment.

Regulatory issues

An Energy Law was introduced in 1998 to free prices and make the market fully competitive, as well as to deal with the PPAs. The process is gradually advancing.

In 2001 the Polish power grid, PSE, plans to dismantle the long-term energy contracts system, which guarantees high prices to energy producers but raises the price for distributors and consumers, stifles competition and is in the way of energy sector deregulation. To offset the loss of the PPAs, the PSE is to launch a long-awaited Compensatory Payments System (SOK) in April 2001 to compensate not only producers who have signed long-term contracts but also all energy firms that have invested in improving the efficiency of production or in environmental protection. Once the SOK is launched, PSE will lose its monopolistic hold on the energy transmission market and Poland will have a free market for electricity. It is planned that the first group of power generators to enter the SOK will be Bełchatów, Opole and Jaworzno III (which together account for approximately 30 per cent of total energy generated). Currently PSE transmits over 70 per cent of all electricity, mainly through long-term contracts, but its share is expected to decrease heavily once distributors and individual large consumers are able to buy power directly from the producers at wholesale prices determined by the market (until the market is sufficiently competitive, prices will be controlled by the URE, see below). This year the PSE plans to invest in building and developing energy transmission stations and in the modernisation of existing facilities. PSE is also involved in the telecoms sector (see *Telecommunications* below).

The Energy Regulation Agency (URE) controls energy prices and acts to protect consumers from excessive price rises until the market becomes fully competitive. Investors have criticised this arrangement as not permitting prices to rise to reflect the cost of borrowing money for investment, which increases their risk and discourages investment. A better regulatory system is considered necessary in order to establish a clear pricing regime.

Poland's first wholesale electricity exchange, the Giełda Energii, started trading on 1 July 2000. Based on a Scandinavian model, the exchange was expected to account for about 1-2 per cent of consumption by the end of 2000, rising to over 10 per cent by mid-2001 and 25-30 per cent at the end of 2002. However, the mid-2001 target has been revised to 7 per cent. Transactions between producers, distributors and large customers are conducted on the exchange electronically. PSE is planning to introduce an hourly balancing market to the exchange. In January 2001 participants on the exchange were made exempt from tariff rules applicable to the rest of the power sector, according to a decision by the URE, which recognised the exchange as a competitive market. This will allow prices on the exchange to better reflect the real value of electricity in the free market.

Telecommunications

Poland's telecommunications sector is being deregulated to meet EU accession criteria. The Sejm approved a new telecommunications law in May 2000. The local and domestic long-distance markets will be fully liberalised in 2002, while the international long-distance market will be opened to competition at the end of 2003. There is already some competition on the local call market and three long-distance operators started providing services in July 2000. There is also fierce competition on the mobile phones market since the granting of dual (GSM and DCS) licences to three operators (two private, one incumbent). The new law establishes the rules for interconnection fees, tariff issues and creates an independent regulator, the Office Of Telecommunications Regulation (URT) while eliminating licences for phone services operators. The existing competition is resulting in improved services.

State telecoms company **TPSA** faces competitors in both fixed line and mobile services, and in 2000 lost its domestic long-distance monopoly. TPSA has been undergoing gradual privatisation, firstly through an IPO, directed to both domestic and foreign investors (via GDR), for 15 per cent of its shares and the distribution of a further 15 per cent to present and former employees. In July 2000 a consortium led by France Telecom bought a 35 per cent stake in TPSA for US$ 4.3 billion, increasing prospects for improved telecommunication services. This year France Telecom will be allowed to increase its stake to over 50 per cent. However, in February 2001 France Telecom announced that it will not acquire the additional 16 per cent stake for which it qualifies, which was a blow for the government who had been expecting some US$ 2 billion in revenue from the deal. More recently, the government has been in talks with France Telecom to try to persuade it to change its decision. The government is considering selling a further 14-30 per cent of TPSA through an IPO later this year, if it is satisfied with the market conditions. It will only sell as much as 30 per cent if France Telecom continues to refuse to acquire additional shares, and has announced that if necessary it will issue additional treasury bonds to cover the loss of privatisation revenue following France Telecom's decision. Since buying its stake, France Telecom has been working to improve TPSA's customer service and network, including an overhaul of its information technology and billing systems. In February 2001 TPSA was fined PLN 54 million by the Competition and Consumer Protection Office for monopolistic practices, namely for being too slow to reduce its charges for long-distance connections, which are on average 40 per cent higher than in the EU.

Long-distance and local fixed-line licence holders

In January 2000 domestic long-distance licences were granted to the following companies: Netia Holdings, a joint venture between RP Telekom and Telia (Sweden) in consortium with Polish banks BRE and PKO BP; NG Koleje Telekomunikacja, which is a consortium of National Grid (UK), Energis, PKP (the Polish railways) and Poland Telekom Operators; and a consortium including petrol refiner and distributor PKN Orlen and power grid PSE. The licences became operative in July 2000. TPSA has yet to sign interconnect agreements with the providers and NG Koleje has therefore not even paid the licence fee.

Netia Holdings, which is also a local fixed-line operator, is the biggest competitor for TPSA. Its customer base and earnings are growing, since reaching a deal with TPSA on interconnection arrangements. In 2000 Netia completed a 10-city telecoms backbone network, and it plans to invest about PLN 200 million in 2001 to expand its services. It offers services in Warsaw, the most lucrative region, through two connections to TPSA's Warsaw-based network. Netia has 24 licences for local services covering 40 per cent of the population, and some 300,000 subscribers.

Among the large number of local operators, another major player is **Elektrim Telekomunikacja** (ET), 51 per cent owned by the Elektrim engineering group, and 49 per cent owned by Vivendi of France. ET holds 51 per cent of Polska Telefonia Cyfrowa (PTC), one of Poland's largest mobile operators (see *below*). It also owns cable operator Bresnan Telecom-munications, and local telecoms operator El-Net, with some 63,000 subscribers in June 2000 and licences covering territory inhabited by 11 million people, as well as five other telecommunication assets. Following a two-year dispute with Deutsche Telekom over its ownership of 51 per cent of PTC, Elektrim has now run into trouble with Vivendi. In December Deutsche Telekom made a bid to acquire 51 per cent of six of Elektrim's fixed-line and data transmission units for US$ 180 million in cash. This deal also provided for a joint strategy for PTC, and was to mark an amicable end to the dispute in which Deutsche Telekom had claimed that Elektrim had gained control of PTC through an illegal share increase. In February Vivendi filed a suit against Elektrim alleging breaches of their agreement and asking for Elektrim's negotiations with Deutsche Telekom to be called off. It also demanded that Elektrim buy back its stake in Elektrim Telekomunikacja at a market price. Some analysts expect that ultimately Deutsche Telekom will end up taking control of much of Elektrim Telekomunikacja, including PTC, and that Vivendi is trying to ensure that it gets as high a price as possible from Deutsche Telekom for its own key stake. However, the situation is not entirely clear, with newspaper reports at variance, and it remains to be seen what will happen. Elektrim Telekomunikacja also owns a leading cable television company.

Other leading local fixed-line operators include Poland Telecom Operators (80,000 subscribers at the end of 1999), Dialog, owned by Telefonia Lokalna (40,000 lines in operation by mid-2000; owned by copper giant KGHM, see *Natural resources – copper* above), and Szeptel (some 22,000 lines by the end of 2000), which recently postponed a share issue for a strategic investor and has ambitious plans for a nationwide fibre-optic cable to provide telecom, Internet and data transmission services.

Mobile telephones

There are three leading mobile operators, with a rapidly growing customer base, as the penetration ratio rose from 10.5 per cent at the end of 1999 to 17.8 per cent in December 2000. The number of mobile users grew in 2000 by 70 per cent to 6.9 million. While as the dominant telecoms operator, TPSA provides links to other wire-based and cellular networks, obliging the other cellular operators to reach agreements with it on fees to be paid for connection to these networks, the cellular system operators also use other telecoms networks, such as that of PSE, the national power grid. The leading cellular operators are as follows:

- **Centertel** – Analogue NMT 450, digital DCS 1800 and GSM 900 mobile operator, brand name Idea, a joint venture between TPSA (66 per cent) and France Telecom (34 per cent). In March 2001 the owners increased the share capital of Centertel by PLN 300 million (US$ 74.04 million) to PLN 1.73 billion. Investment plans include building up the network for the GSM 900 concession in order to compete with PTC and Polkomtel. France Telecom is planning to transfer its shares in Centertel to its mobile unit, Orange, by the end of 2001, but it is unclear whether Centertel's mobile service will be recast under the Orange brand. The transfer will also depend on Polish regulatory conditions. Centertel is Poland's smallest mobile operator, with some 1.7 million subscribers.
- **Polska Telefonia Cyfrowa** (PTC) – GSM 900 mobile operator, brand name ERA GSM, currently owned by Deutsche Telekom (45 per cent, of which half through subsidiary DeTeMobil), Elektrim Telecommunications (51 per cent; a JV between Elektrim and Vivendi of France), and others. Shareholding ownership changes appear to be under way (see above). PTC recently raised over US$ 600 million in debt financing to support its roll-out and to refinance existing facilities.
- **Polkomtel** – GSM 900 operator, brand name GSM Plus, owned by Tele-Danmark, Vodafone/Air Touch (UK-US), petrol refiner PKN Orlen and copper firm KGHM – 19.61 per cent each, power grid PSE – 16.05 per cent, and three smaller shareholders. Polkomtel's profits rose by 60 per cent in 2000 to some PLN 200 million (US$ 48 million) thanks to an increasing client base of some 2.46 million subscribers. New shares are being offered in 2001, and should raise the company's equity by PLN 550 million.

Market share of existing GSM operators

Company	Brand name	No of customers, '000	Market share, 2000, %
Centertel	Idea	1,650	24
PTC	Era	2,805	40
Polkomtel	Plus	2,400	35

Source: PAP, Citibank (Poland) SA

Due to a lack of interest from strategic investors, the Ministry of Telecommunications annulled a tender for third generation UMTS mobile phone licences and extended them to each of the existing mobile operators. **UMTS** mobile phone technology is expected to be introduced in 2003, and is likely to cost each existing mobile operator some € 3.6 billion. After being issued with the € 650 million licences in December 2000, they have already started to pay instalments for them (3 per cent in 2000 and 53 per cent in 2001, the remainder after 2004), and this year will start investing in the necessary infrastructure. Netia has demanded that it too be issued a UMTS licence on the same terms as the existing three cellular providers. Netia had dropped out of the bidding at the last minute, citing unclear conditions. The tender was criticised in the Polish press for being premature, badly organised and a lost opportunity to generate more revenue when Spanish group Telefonica and other potential buyers dropped out. A fourth licensee is to be chosen in 2002, though the terms of the auction are as yet unclear as it will be the responsibility of the new industry regulator.

Internet services

Internet service providers (ISPs) include Tele2, a unit of Sweden's Netcom AB (NECSA), which plans to invest US$ 50 million over the next three years to expand its wireless Internet services in Poland. Tele2 is undercutting TPSA by offering long-distance services using Voice Over Internet Protocol to customers in Warsaw, Poznań and Gdańsk at much cheaper rates than TPSA. By July 2000 some 400 licences had been issued to ISPs offering both Internet access and data transfer services. TPSA dominates, and foreign companies only represent a very small share of the market. The number of Internet users was estimated at 3.5 million in mid-2000, a penetration rate of 9 per cent.

Transport

Roads

There are about 350,000 kilometres of roads in Poland. Only 21 per cent are in good condition, including 264 kilometres of motorways, 263 kilometres of expressways, and

809 kilometres of dual carriageways. More than a third of all roads need urgent repair. Four of the EU's nine priority Trans-European Transport Corridors cross Poland, adding urgency to the government's modernisation plans. Good connections with the European highway network are an important condition for EU membership, and in this area Poland falls a long way behind the other leading candidates, Hungary, Slovenia and the Czech Republic.

The latest plan for road development is a 15-year programme involving the modernisation of 4,808 kilometres of roads at an expected cost of over PLN 54 billion. The programme aims to meet the requirements of an EU directive issued in July 1996 setting the maximum weight and size of vehicles allowed in traffic and the road standards needed for them. Currently only 1 per cent of Poland's roads meet these requirements. The first phase of the programme, scheduled for the next five years, includes the construction and modernisation of 593 kilometres of highways, 198 kilometres of express roads and other major renovation works. From 2006 through 2010 a further 669 kilometres of highways are to be built, and another 308 kilometres in the subsequent five years. According to officials, only 30 per cent of the cost can be met by the state budget, with the rest to come from EU funds. The EU's ISPA fund is prepared to provide some € 500 million, and the EIB is reportedly ready to lend € 400 million. The EBRD is considering loans of up to € 60 million for road repair and maintenance under a public-private partnership arrangement. The Ministry of Transport and Maritime Economy is currently reviewing ways to broaden the participation of the private sector in road management.

Railways

Poland's rail network totals some 22,300 kilometres, including 11,600 kilometres of electrified lines, and 8,900 kilometres of double tracks. The priority for modernisation will be about 12,000 kilometres used for passenger and cargo transport. There are plans to build the first line for trains capable of achieving speeds of up to 300 kph.

The authorities plan to implement radical reform of state railway company PKP, which is PLN 7 billion in debt, equivalent to 1 per cent of GDP, mainly due to loss-making passenger services. Among planned measures are downsizing of the 200,000 strong workforce by a quarter, cutting some services, splitting infrastructure, freight transport, passenger services and non-core activities, and privatisation of these new entities. However, despite well-designed plans and

Case study: PKP restructuring and privatisation

In December 2000 the EBRD agreed a loan of € 100 million to Polskie Koleje Panstwowe (PKP), the national railway company. The loan was made to support the company's restructuring plan, by funding labour severance payments required in order to enhance productivity and competitiveness before privatisation. PKP is one of Poland's largest enterprises, with an annual turnover of around € 2 billion. Its radical transformation programme involves separating freight, passenger and infrastructure services into three separate railway companies. Private participation will be sought in the resulting freight and passenger businesses. The longer-term introduction of third-party access, to be planned with technical cooperation funding, will be aimed at creating a competitive environment and will allow other train operators to enter the market. The planned labour restructuring, involving downsizing of about 27 per cent over two years, is expected to increase labour productivity by around 14 per cent in 12-18 months, thus further improving the competitiveness of the rail transport industry.

The severance payments being financed by the EBRD are supported by a number of social expenditures. PKP is providing a range of support programmes, including retraining to maximise its former workers' prospects for future employment. The programmes include: counselling to provide individual advice; practical services such as help with writing a CV and application letters, and with interview techniques; vocational training in new skills for other employment sectors; and entrepreneurial training for those considering starting their own business.

The EBRD loan was able to go ahead once a new "Law on the Commercialisation, Restructuring and Privatisation of PKP", defining the overall railway reform programme, had been approved by the Sejm, a process which took longer than originally expected, due to detailed review of the Law by committees within the Sejm. The Law provides for state guarantees for the EBRD's loan and also the issue of PKP bonds amounting to some PLN 4 billion. The proceeds of the bond issue will be used to implement the restructuring measures, increase liquidity and improve the company's ability to service its debt obligations.

This loan follows an earlier EBRD loan of € 50 million to PKP in 1996 for track modernisation and station upgrading along the E-20 (Berlin-Warsaw) route. PKP and the EBRD are also working on loan proposals for investment in railway signalling and power control systems. The restructuring of PKP is expected to provide a good example of how to commercialise large railway organistions in central Europe, which may prove transferable to other countries.

approval of the programme by the parliament in July 2000, necessary reform may be delayed due to the forthcoming elections and strong opposition from both unions and communities affected by rail line closures.

In December 2000 PKP received a loan of € 100 million from the EBRD to support the restructuring programme (see case study below), and it is negotiating another loan of US$ 150 million from the World Bank.

Airports and aviation

In December 2000 Polish and EU negotiators reached an agreement on liberalisation of the air traffic market between the EU, Poland and other candidate countries. The full liberalisation will go ahead on 1 January 2004. In the interim, LOT Polish Airlines will be able to prepare for the ensuing competition. LOT is expected to improve its services and decrease prices as early as this year to be in a good position once all European airlines are able to offer their services in Poland freely. A year before the liberalisation of air traffic Poland will adjust to EU regulations on passenger rights protection.

In November 1999 a strategic stake in LOT was sold to Swissair, which since making a capital increase now has a 37.6 per cent stake. Swissair is increasing the number of LOT's destinations as well as the number of its aeroplanes.

Warsaw's Okęcie international airport has been undergoing modernisation, with reconstruction work begun in 1992 to be followed by the building of a new passenger terminal. The new 40,000 square metre terminal, scheduled for completion by 2003, will be capable of handling 6.5 million passengers per year. Together, these projects will increase the airport's capacity to about 12 million passengers per year. Przedsiębiorstwo Porty Lotnicze, the company that operates Okęcie, plans to invest US$ 300 million in the new facilities. In October 2000 construction firms were bidding in a tender for the new terminal. Six shortlisted companies presented their bids early this year but no winner has yet been announced.

Seaports

Poland has 10 seaports, of which four are large and handle 93 per cent of all cargo. Gdańsk accounts for 37 per cent, Szczecin 22.4 per cent, Gdynia 17.8 per cent and Świnoujście 17 per cent. Modernisation plans envisage creating the facilities needed to double cargo handling to 110 million tonnes in 2015. Both large and small ports will be expanded to boost competitiveness with foreign ports, and inland transport routes will be developed to serve them. A new port law was passed in 1997, allowing for reorganisation of management and introducing, among other items, an obligation for Polish ports to sell their suprastructure to private operators, leaving the ports as owners of the port infrastructure only.

Gdańsk port, originally designed for bulk cargo, is being transformed into a universal port. Coupled with its favourable location, new terminals are set to make it very competitive. A new liquefied petroleum gas terminal is now in operation (built with UK financing), and a grain and feed terminal is under construction.

The ports of Szczecin-Świnoujście and Gdynia have re-established profitability by adopting new technologies and seizing new market opportunities, particularly the importation of oil as an alternative to pipeline transport from Russia. In December 2000 the World Bank approved loans totalling € 41 million for the Szczecin-Świnoujście Seaway and Port Modernisation Project, to finance improvements to the seaway, and to construct new berths and cargo handling areas in two locations within the port. This is the second part of an ongoing port sector modernisation programme aimed at promoting the country's trade by developing an efficient administration and managerial structure and improving physical infrastructure at the main ports of Gdańsk, Gdynia and Szczecin-Świnoujście. The first part, the Port Access and Management Project, is ongoing and aims at correcting the lack of effective connections between the ports and the country's inland transport system.

Environment

Poland suffered from severe pollution in the 1980s, especially in the Silesian mining and steel area. Transition has brought a new approach to environmental issues. New policies have been adopted, and investment has been made in environmental protection. Since 1989 river pollution and major air pollutant emissions have been greatly decreased. Power generating plants have been modernised to improve energy efficiency and reduce pollution. Poland's adoption of the EU's "Integrated Pollution Prevention Directive", mandating Best Available Control Technology, will require Polish factories to use specific commercially available technology to control emissions. The government's facility-specific, compliance determinations option would give plants that are certified as environmentally compliant with EU rules tariff reductions earlier than noncompliant plants, a policy geared to encourage early adoption of EU requirements.

Various international agencies have been assisting with Poland's environmental protection. These include the US Environmental Protection Agency, which has run an air monitoring project in Kraków (formerly one of the worst affected cities). USAID is helping Poland's Environmental Action Programme Support with over 100 emission reduction projects, for which financing of almost US$ 40 million has been raised. The World Bank is financing desulphurisation equipment installations at two large power plants. The EBRD is financing a multi-project facility to develop a network of energy service companies for the region to install appropriate technology at plants and thus reduce energy consumption.

Strengthening environmental protection in preparation for EU accession is likely to be a lengthy and costly process, along with farming, the most difficult challenge for Poland. The Polish authorities estimate that meeting the EU environmental requirements in full will take up to 20 years and the total cost will amount to € 30-35 billion, of which about 50 per cent will be needed to improve water quality, 40 per cent for air purity, and 10 per cent for waste processing. Current governmental expenditures on the environment are equivalent to 1.7 per cent of GDP, € 2 billion. The EU is providing assistance of about € 200 million annually, starting from 2000. Poland is asking for interim periods during which EU standards will not apply in 14 areas, including gas emissions, solid waste and sewage disposal. The main issue for EU negotiators is the pace and cost of the entire process.

Issues to be addressed – apart from the huge cost – include continued reliance on coal for energy, and a lack of proper legislation or enforcement to punish polluters who still pour toxic effluents into rivers. The gradual shift away from heavy industry towards modern services and towards cleaner energy sources will improve matters.

Other

Aerospace

The delayed privatisation of helicopter maker PZL Świdnik was launched in January 2001. Bell Helicopter (a unit of Textron, US) has expressed interest in the plant, as has Boeing (US), Agusta (a unit of Finmeccanica, Italy) and Eurocopter (part of European aerospace firm EADS). The sale is due to be completed by mid-year. Bell has said in the past that it would use Świdnik to produce Super Cobra helicopters for the Polish army and later for export. British Aerospace (BAe) concluded its latest supply contract with the Mielec aircraft company in February 2001, in a deal worth some US$ 20-30 million. Mielec produces parts of the wing-flaps and tails for BAe's Avro RJ regional aircraft, and other parts for the Hawk military trainer and the Gripen fighter. PZL Rzeszów, one of Poland's largest aircraft engine producers, is to be privatised this year. Pratt & Whitney (Canada), a unit of United Technologies (US), has expressed interest in buying a stake, following over 20 years of cooperation with PZL Rzeszów. Other potential investors are General Electric (US) and Fiat (Italy).

As a new NATO member, Poland plans to update its air force and aims to acquire 60 jet fighters by 2006, initially on lease with gradual purchases later. The supplier of the jets would be expected to invest in Poland's arms industry a sum equivalent to the value of the contract, estimated at between US$ 1.5 billion and US$ 3 billion. Boeing (US), Lockheed Martin (US), Dassault Aviation (France) and a consortium of BAe and Sweden's Saab have expressed interest.

Media

Several major international firms have started cable television operations in Poland. United Pan-Europe Communications (UPC, Netherlands) made the largest investment of 1999 when it acquired @Entertainment Inc., which controlled Wizja TV (the largest digital TV operator) and PTK (the largest cable operator). Its total investment is US$ 1.15 billion. UPC has been negotiating with Vivendi (France), a major shareholder in Canal+ France (which is one of the owners of Cyfra+, WizjaTV's rival digital station) on a possible merger between the two digital platforms. Polsat, a local media house, has also launched a digital TV platform.

Engineering giant Elektrim (see *Telecommunications* above) paid US$ 310 million to acquire Bresnan International Partners, a cable television company which operates Aster City. The remaining cable market is highly fragmented and awaits consolidation.

Agora, the publishing giant that owns the leading national daily newspaper, *Gazeta Wyborcza*, is the first media company to be floated in the region. Agora also owns 10 local radio stations, has a stake in cable TV firm Canal+Polska and has recently launched an e-commerce business (see *Information Technology and e-commerce* above). It is now looking to buy a stake in leading outdoor advertiser AMS.

Financial sector

Poland has one of the most developed banking and financial sectors in central Europe. The banking sector has remained fundamentally sound since the middle of the 1990s, as the "bad loans" problem of the early 1990s was largely overcome through the establishment of efficient regulatory and supervisory frameworks and institutions, and some re-capitalisation of banks. The advanced stage of privatisation in the banking sector is one of the key features of the Polish economy, and one of its major strengths. As in the banking sector, the presence of foreign capital in the insurance sector has also been on the rise in recent years. The fast development of pension funds greatly increased liquidity and the stability of the stock market in 2000.

Banking sector

The Polish banking system is supervised by the National Bank of Poland (NBP) which is the country's central bank. The NBP's main responsibility is to conduct the country's monetary policy and supervise the banking sector. It issues banking licences and foreign exchange permits.

Poland has made significant progress in recent years on the compatibility of banking legislation with the EU *acquis*. The Act on Public Finances adopted in November 1998 enhanced the central bank's independence by implementing the constitutional prohibition of direct financing of the public sector by the central bank. A new Banking Act regulating commercial banking activities entered into force on 1 January 1999. The Polish finance ministry stated that full liberalisation of the banking sector will only occur upon Poland's accession to the EU.

The financial sector is developing fast, in particular through the increased presence of foreign strategic investors in large Polish institutions. More than two-thirds of the banking sector in terms of assets is now under private ownership. Lending to the private sector has consistently increased in real terms over the last few years. By the end of 2000, private accounts at banks operating in Poland numbered 11 million, or 2.1 million more than a year earlier.

However, the government has some scope to intervene in the governance of privatised banks through its remaining direct and indirect stakes. During 2000, there were several high-profile take-over cases, including BIG Bank Gdański and Bank Handlowy, in which active involvement of the authorities affected the final outcome of ownership changes. The strong presence of foreign strategic investors, including control of about 50 per cent of banking sector assets and ongoing consolidation, has contributed to strengthening of the banking sector.

In a ranking presented by British monthly *The Banker*, three banks from Poland: Pekao S.A. (the largest in terms of own funds), PKO BP S.A. (having the largest assets) and Bank Handlowy were listed among the 10 major banks in central and eastern Europe. PKO BP and Pekao hold a combined share of 32 per cent of Polish banking assets, with the next largest banks holding some 4-5 per cent each. These two banks dominate on the deposit and consumer lending markets but have a far lower share of the corporate lending market. In the opinion of analysts, in one to two years from now, Polish banks will dominate the rankings to an even greater extent. This will result from the fact that Polish banks are regularly increasing their capital and assets, because of good banking trends in Poland and strong consolidation developments among Polish banks.

Bank Pekao SA

Pekao is one of the largest banking groups in Poland. The group comprises the parent bank, Bank Pekao SA, with headquarters in Warsaw, and three regional banks. Pekao's primary business is the provision of commercial banking services, including lending and deposit-taking, to large corporations and SMEs. As at mid-year 2000, the bank had the second largest branch network in the country and employed 16 per cent of the total banking sector staff in Poland.

A consortium comprising UniCredito of Italy and Allianz of Germany took a 52.1 per cent stake in Pekao in 1999. In autumn 2000, the two institutions raised their joint stake to 53.2 per cent.

The EBRD took an initial stake in the bank in September 1998, when it subscribed shares representing a 5.29 per cent holding. In 2000, the EBRD made a new equity investment of € 12.6 million in newly issued shares to maintain its 5.29 per cent stake in Pekao's enlarged capital.

Privatisation and restructuring

Significant progress has been made in the area of bank privatisation and restructuring in recent years. The privatisation model has been a mix of large private placements to foreign strategic investors and minor stakes offered to employees, retail and institutional investors through public offerings. This foreign capital has enabled the banking sector to recapitalise and grow at a time when Poland had little capital of its own. The share of foreign capital amounts to over 70 per cent of total assets in the domestic banking sector. This level of foreign penetration is one of the highest in the region.

The largest bank privatisation deals completed since the 1997 parliamentary elections are the following:

- In 1999 Allied Irish Bank acquired the Wrocław-based Bank Zachodni, paying US$ 634 million for an 80 per cent stake.
- Bank Przemysłowo-Handlowy (BPH), based in the southern city of Kraków, was floated on the stock exchange in February 1995 when the EBRD took a stake in the bank. The Polish Treasury sold its shares in BPH to Germany's Bayerische Hypo-und Vereinsbank in 1999. The German bank controls 81.5 per cent of BPH.
- Bank Gdański, based in Gdańsk, was sold in December 1995. It was acquired in 1997 by a private bank, Bank Inicjatyw Gospodarczych (BIG), a new private bank that emerged alongside privatisation. The merger in 1997 led to the formation of a new banking group, BIG Bank Gdański. In early 2000, the bank fended off a hostile takeover attempt by Deutsche Bank.
- As a part of the government strategy to consolidate the banking sector before privatisation, Pomorski Bank Kredytowy, Szczecin, Bank Depozytowo-Kredytowy, Lublin, and Powszechny Bank Gospodarczy, Łódź, were merged into Bank Pekao. In 1999 Pekao was purchased by an Italian-German partnership, UniCredito Italiano and Allianz. UniCredito bought a 52.1 per cent stake in Pekao for US$ 1.1 billion. (See box.)
- Citigroup (US) had acquired more than 87 per cent of the shares of Bank Handlowy (BH) by the end of 2000. Citigroup is now in the process of merging its Polish unit, Citibank Polska, with Bank Handlowy. The union will create the region's eighth-largest bank.

Two large banks have yet to be privatised, namely PKO BP, the largest savings bank, and BGZ, the agricultural bank. Both institutions are in need of restructuring before they are privatised.

Major foreign investors in banking, as at mid-2000

Investor	Equity and loans (US$ million)	Country of origin	Investment
UniCredito Italiano	1,042.0	Italy	Purchase of a 50.09 per cent in Pekao
Bayersiche Hypo- und Vereinsbank AG	1,000.0	Germany	Stakes in Bank Przemysłowo-Handlowy and in Wielkopolski Bank Rolniczy
Citibank	986.6	USA	Citibank (Poland), Citibank NA Representative Office, Citileasing Sp. z o.o., Citibrokerage Dom Maklerski Sp. z o.o., Globe Trade Centre (Warsaw); stake in Bank Handlowy w Warszawie
Allied Irish Bank Plc	746.7	Ireland	60.1% stake in Wielkopolski Bank Kredytowy, WBK AIB Asset Management; purchase of 80 per cent of shares of Bank Zachodni
ING Group NV	520.0	Netherlands	ING Bank NV (Warsaw), ING Baring Securities (Warsaw), Nationale Nederlanden Polska, ING Lease Polska, 50% stake ING BSK Asset Management (Warsaw), 54% stake in Bank Sląski; 80% stake in PTE Nationale Nederlanden Polska, 14% stake in Bank Przemyslowo-Handlowy w Krakowie, ING Real Estate, ING BSK Towarzystwo Funduszy Inwestycyjnych (Katowice)
Commerzbank AG	288.6	Germany	Shares in Bank Rozwoju Eksportu
Deutsche Bank	146.6	Germany	Deutsche Bank Polska, stakes in BIG Bank Gdański and Bank Współpracy Regionalnej
Creditanstalt Bankverein	145.2	Austria	Bank Creditanstalt SA, stakes in PBK and in Polifarb Dębica

Source: PAIZ

Non-bank financial institutions

Stock exchange

Poland has a well developed and growing equity market. The 1991 Law on public trading in Securities and Trust funds created the regulatory framework for operation on the capital market. The Warsaw Stock Exchange (WSE) opened in April 1991 and is now the largest central European market, well regarded for its prudent supervision and developed legal framework. The total number of shares listed now exceeds 200 and the capitalisation of about US$ 30 billion is comparable to that of the smallest EU exchanges.

The WSE trades equities, treasury bonds and futures. The share market has three tiers: main, parallel and free. The main market has the most stringent listing requirements. Over the years the WSE has built up a reputation as one of the best-regulated stock markets in central and eastern Europe. The Securities and Exchange Commission (KPW) supervising the bourse has achieved a high level of transparency. The WSE calculates several official equity indices:

- The WIG20 is a price index, comprising the 20 companies from the WSE main market with the highest turnover and market capitalisation.
- The MIDWIG is a price index covering 40 mid-cap companies listed on the WSE main market.
- The WIG is a total-return type index weighted by companies' capitalisation and covering all companies listed on the main market.
- The WIRR is an index covering companies listed on the parallel market.
- The NIF index is a price index that covers the 15 National Investment Funds.

The WSE experienced highly volatile trading in 2000. Technology stocks drove the market up in the first six months, followed by a downward correction in late-summer, and a slow upward trend in the last quarter of the year. The WIG index closed at 17,847 points in December 2000 compared to 18,083 at the end of 1999. The year 2000 saw only 12 IPOs.

In November 2000 a new trading system, Warset, started operating on the WSE. The system was developed by the SBF-Paris Bourse and is based on the French NSC system. This system is used by some 20 markets in the world, and it gives Warsaw the same technology as the Paris-Amsterdam-Brussels Euronext alliance.

The steady flow of long-term investment from private pension funds, and the privatisation of large state-owned enterprises will be the two major developments that will have a significant impact on the development of the capital markets in the coming years. The WSE also intends to introduce several new investment products in 2001.

Insurance

The Polish insurance market is characterised by a high penetration of foreign capital. In 2000, there were 69 insurance companies and foreign capital was present in 50 of them, including 41 insurers in which international companies were majority stakeholders. In total, foreign insurance companies have invested around PLN 2 billion in Poland. German companies have been responsible for the largest amount of investment, followed by Dutch and Swiss companies.

Poland's insurance market continued to be very attractive for foreign investors in 2000. International insurance companies invested PLN 700 million in Poland in 2000, 50 per cent more

Main indicators of the Warsaw Stock Exchange

Indicators	1996	1997	1998	1999	2000
WIG20 (year-end)	1,441.8	1,457.8	1,221.0	1,755.8	1,816.19
MIDWIG index (year-end)	na	1,000.0	777.0	1,098.7	1,004.68
WIG index (year-end)	14,342.8	14,668.0	12,795.6	18,083.6	17,847.55
NIF index (year-end)	na	122.6	65.6	60.6	59.8
WIRR index (year-end)	2,661.7	3,284.5	1,674.5	2,085.9	2,748.62
Number of listed companies (year-end)	83	143	198	221	225
Capitalisation at the end of the year (PLN million)	24,000	43,766	72,442	123,411	130,085

Source: WSE

than in 1999. Six new foreign insurers launched operations in 2000 in Poland: two US based giants Metropolitan Life and Nationwide, Germany's DAS, Austria's Uniqua, Wüstenrot (Germany/Austria) and France's Prevoir.

Most of the Polish insurance companies, including the foreign ones, concentrate on the life insurance market. The Polish non-life insurance market is not very developed, but offers huge room for growth in the next few years.

The insurance sector is dominated by Powszechny Zakład Ubezpieczeń (PZU), Poland's largest insurance firm. The PZU group consists of several financial companies including PZU SA, the parent company, which specialises in property insurance, and PZU-Życie, a main subsidiary operating in the life insurance market. PZU SA commands around 58 per cent of the property insurance market, while PZU Życie has around 55 per cent of the life insurance market. Since November 1999, a consortium of pan-European insurance group Eureko and BIG Bank Gdański hold 30 per cent of PZU's shares, and the rest are retained by the Treasury. In 2000, conflict developed over the control of PZU between the Treasury and the other two shareholders. In January 2001, Poland's Finance Minister Jarosław Bauc was quoted as saying that the conflict over PZU is an individual case and should not threaten the whole process of privatisation and the good investment climate in Poland.

The EBRD has been an active player in the Polish insurance market. At the moment EBRD retains stakes in five insurance companies on the Polish market, whose total value amounts to PLN 18.52 million. These are: TU Winterthur Życie (2.02 per cent), TU Winterthur (8.75 per cent), PTU Energo-Asekuracja (17.8 per cent), BTUiR Heros (10 per cent), and Polskie Towarzystwo Reasekuracyjne (1.19 per cent).

Pension funds

The launching of pension reform in 1999 has provided the opportunity for the establishment and growth of private pension funds in Poland and has contributed to stock market development. The pension reforms are based on Latin American and US models, whereby individuals put their payroll-deduction pension money into individual retirement accounts in privately managed pension funds. These Compulsory Open Pension Funds manage contributions made by eligible employees equal to 7.3 per cent of their monthly salaries and further Voluntary Pension Schemes are also available. In the three-pillar plan adopted by Poland, everyone under the age of 30 is required to go into the second-pillar private plan; those aged 50 and above stay with the existing pay-as-you-go first pillar; and those between 30 and 50 can choose to stay or switch. A third pillar is for company-offered pension plans.

There were 21 pension funds at the end of 2000, which had attracted placements from over 80 per cent of the eligible population. However, the market is highly concentrated. Three funds created by domestic and foreign insurance companies dominate, with about 63 per cent of market share: Commercial Union (UK), Nationale Nederlanden (Netherlands) and PZU Złota Jesień, a subsidiary of the general insurance giant PZU. Commercial Union is the market leader and also has a fast-growing life-insurance business in Poland. Nationale Nederlanden, a unit of the Dutch ING group, was the first foreign insurer to enter the Polish market, and PZU Złota Jesień has capitalised on its strong brand and established sales network from its days as the monopoly insurer.

The fast development of pension funds has helped improve the liquidity and the stability of the stock market in Poland. The funds invested PLN 2.6 billion into the bourse in 2000, accounting for 7 per cent of the market free float. The funds acted as the main source of demand for big capital offerings including tranches of oil refining and retail giant PKN Orlen and Bank Pekao.

Top five pension funds ranked by monthly premium income (in PLN million)

Pension fund	Monthly premiums	Market share
Commercial Union	220	28
Nationale Nederlanden	161	21
PZU Zlota Jesień	114	14
American International Group	72	9
Zurich Solidarni	29	9

Source: Rzeczpospolita

EBRD activities in Poland

As at 31 December 2000, the European Bank for Reconstruction and Development (EBRD) had signed 114 investment projects in Poland involving direct Bank investment of € 1,888.3 million. The EBRD's finance helped to mobilise € 6,961.5 million of additional investment.

The EBRD has maintained its responsiveness to progress in transition and its "additionality" through a wide range of initiatives. Additionality (supplementing rather than replacing private sector sources of finance) has been achieved by moving across market segments and developing new approaches as the economic transition in Poland advances. The Bank has been adjusting to the transforming Polish market by switching from debt to equity, from Warsaw to the provinces, from foreign-backed joint ventures to Polish companies without foreign shareholders, and from classical bank lending to capital market transactions. It is actively working in the fields of infrastructure, industrial restructuring, and support for small and medium-sized enterprises (SMEs).

Private sector operations have accounted for 82.4 per cent of EBRD financing, well above the Bank's target. Equity accounts for 40.4 per cent of the Bank's financing, with 59.6 per cent in debt. Wholesale lending and equity investments accounted for approximately 47 per cent of total approvals, well above the current target rate for the Bank.

Overview of EBRD activities and key objectives

The operational strategy for Poland remains focused on key challenges for the transition to a market economy and emphasises the requirement for a rapid response to new challenges as Poland's transition process moves forward. The EBRD pursues the operational objectives outlined below.

Corporate sector

The EBRD seeks to promote privatisation, restructuring, competition, corporate governance and competent management in sectors where the functioning of markets and the presence and performance of private enterprises must be strengthened.

The EBRD continues to promote the development of new private enterprises, principally through the equity financing of local enterprises in light manufacturing, consumer products and service sectors. The Bank will continue to participate in the establishment of focused venture capital funds, in particular provincial-level funds targeting smaller enterprises and cross-border funds that could finance the expansion and integration of Polish businesses on a regional basis.

The EBRD is making a special effort to support small and medium-sized enterprises (SMEs) through: (a) implementation of the EC-EBRD SME Facility; (b) provision of dedicated credit lines to local banks; (c) continued support to private equity funds; and (d) coordination with bilateral and multilateral institutions.

Financial sector

The EBRD seeks to promote the supply of a broad range of financial structures and products, such as fixed-income securities, asset-backed securities, mortgages, leasing services, insurance products, mutual funds and specialised structured finance. The Bank cooperates closely with local financial institutions to help expand their capacity to provide innovative forms of financing and their ability to compete as the financial sector is deregulated and opened further to foreign entry. The EBRD continues to make direct investments in local financial institutions, particularly in the cooperative banking sector and in non-bank financial institutions, such as insurance companies, pension funds and consumer finance institutions.

Infrastructure sector and environment

The EBRD finances infrastructure investments in the transport, municipal and environmental infrastructure, power supply and distribution and energy efficiency sectors. In the power sector, the Bank will consider taking equity in or lending to power and heat companies through the privatisation process. The Bank continues to assess opportunities for its involvement in transport investments, including the financing of concessions in roads and motorways, as well as regional rail systems, urban transport, ports and airports.

The Bank's environmental investments are concentrated in water supply, waste-water collection and treatment, and solid waste management. The Bank continues to lend to municipalities without commercial bank or sovereign guarantees, as well as lending to creditworthy municipal utility companies with or without municipal guarantees. The Bank also supports projects involving public-private partnerships for provision of municipal services, and is developing wholesale financial structures which will enable it to finance groups of projects. The Bank co-operates closely with EU-ISPA with regard to environmental investments.

The EBRD continues to promote the implementation of energy-saving investments in the private and public sectors by investing in and providing loans to energy service companies. In addition, the Bank will support the upgrading of district heating networks by promoting privatisation and restructuring in the sector. The EBRD also seeks to provide financing to industrial companies with the implementation of comprehensive investment programmes aimed at reducing excessive energy consumption.

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Signed projects, as at 31 December 2000 (in € million), exchange rate as at 31 December 2000

Operation name	Sector	Total cost	EBRD debt	EBRD equity	EBRD total
Private sector					
Atrium Hotel Warsaw	Accommodation	82.5	2.5	13.5	16.0
Danone MPF – Danone Ciastka	Agribusiness	77.5	0	19.4	19.4
Danuta S.A.	Agribusiness	51.6	0	9.2	9.2
Farm Frites Poland	Agribusiness	34.7	8.7	0	8.7
Hortex Holding S. A.	Agribusiness	117.7	0	28.5	28.5
Hortex Debt	Agribusiness	12.4	12.4	0	12.4
IBG – Janofrost Sp. z o.o.	Agribusiness	4.8	1.8	0	1.8
IBG – KRESPOL z o.o	Agribusiness	4.9	1.8	0	1.8
IBG – Kujawy-Frost Sp. z o.o.	Agribusiness	4.9	1.8	0	1.8
Kruszwica S.A.	Agribusiness	56.4	17.4	0	17.4
Kruszwica II	Agribusiness	5.8	0	1.2	1.2
Lodom Sp. z o.o.	Agribusiness	12.3	3.0	0	3.0
MPF – Slodownia Soufflet – Polska SARL	Agribusiness	26.6	9.2	0	9.2
Ringnes/Pubrex (BCCB)	Agribusiness	17.7	5.6	0	5.6
Rolimpex S.A. – Equity	Agribusiness	105.8	0	13.0	13.0
Polish Dairy Facility – Bank Śląski	Agribusiness	13.7	11.0	0	11.0
Polish Dairy Facility- Rabobank Polska	Agribusiness	10.7	8.0	0	8.0
Polish Dairy Facility – WBK	Agribusiness	10.7	8.0	0	8.0
FIAT/FSM	Automotive	398.3	82.5	0	82.5
American Bank in Poland – Sub Loan	Finance	5.4	5.4	0	5.4
Bank Przemysłowo-Handlowy w Krakowie	Bank	44.4	0	48.2	48.2

Continued

Signed projects, as at 31 December 2000 (in € million), exchange rate as at 31 December 2000 *continued*

Operation name	Sector	Total cost	EBRD debt	EBRD equity	EBRD total
Private sector *continued*					
Kredyt Bank S.A (Capital Increase I, II, III and Equity)	Bank	178.4	0	21.3	21.3
LG Petro Bank S.A.	Bank	20.7	22.6	0	22.6
Pekao S.A.	Bank	107.0	0	88.1	88.1
Pekao S.A. Derivative	Bank	13.7	0	13.5	13.5
Pekao S.A. Capital Increase and Equity Purchase	Bank	67.4	0	43.0	43.0
Polish Development Bank	Bank	32.2	6.6	0	6.6
Wielkopolski Bank Kredytowy	Bank	19.2	0	10.4	10.4
WBK SME Facility	SME finance	10.0	10.0	0	10.0
Bank Śląski	Bank	10.0	10.0	0	10.0
Fortis Bank Polska	Bank	10.0	10.0	0	10.0
MPF Lafarge: Kujawy and RMC	Building materials	141.9	0	28.1	28.
MPF Lafarge: Lafarge Polska Capital Increase	Building materials	29.9	0	6.1	6.1
MPF Lafarge: Małogoszcz and Wierzbica	Building materials	195.8	0	13.4	13.4
Lafarge Polska II	Building materials	167.0	75.0	0	75.0
Cementownia Chełm	Cement	59.3	26.1	2.5	28.6
Cementownia Chełm: Restructuring	Cement	26.1	26.1	0	26.1
EIB Guarantee Facility for TPSA	Communications	250.0	30.0	0	30.0
Netia	Communications	302.2	15.3	8.4	23.7
Polska Telefonia Komórkowa Sp. z o.o.	Communications	167.6	25.8	0	25.8
Telekomunikacja Polska S.A. (TPSA)	Communications	1,001.9	0	64.9	64.9
Faure & Machet	Distribution facility	22.8	7.9	0	7.9
Warsaw Distribution Center	Distribution facility	14.0	5.6	0	5.6
Dalkia Termika	Energy efficiency	34.7	8.1	2.6	10.7
Honeywell ESCO Poland	Energy efficiency	3.8	0	2.7	2.7
L&G ESCO Poland	Energy efficiency	8.3	2.1	0.9	3.0
MVV ESCO Poland	Energy efficiency	64.2	13.2	5.5	18.7
PPGC's Financing of Bielsko-Biała Power Station	Energy	86.9	29.6	0	29.6
Argus Capital Partners	Equity fund	169.0	0	27.4	27.4
Caresbac Polska	Equity fund	13.2	0	6.8	6.8
Central Poland Fund	Equity fund	23.1	0	10.7	10.7
Pioneer Poland Fund	Equity fund	59.1	0	6.3	6.3
Pioneer Polish Real Estate Fund	Equity fund	10.7	0	10.7	10.7
Poland Private Equity Fund	Equity fund	161.4	0	42.0	42.0
Polish Enterprise Fund	Equity fund	174.0	0	20.0	20.0
Polish Enterprise Fund IV	Equity fund	322.4	0	53.7	53.7
Polish Pre-IPO LP	Equity fund	67.5	0	5.4	5.4
IO Fund – HTH Poland	Financial	0.1	0	0.1	0.1
Forte S.A.	Furniture	10.7	0	1.9	1.9
Huta Szkła Jarosław	Glass products	52.8	5.5	0	5.5
Pilkington Sandoglass Sp. z o.o.	Glass products	158.0	26.8	7.1	33.9
Rockwool Polska Sp. z o.o.	Glass products	18.0	5.6	0	5.6
Poland Housing (Rep of Poland)	Housing	66.2	1.8	0	1.8

Continued

Signed projects, as at 31 December 2000 (in € million), exchange rate as at 31 December 2000 *continued*

Operation name	Sector	Total cost	EBRD debt	EBRD equity	EBRD total
Private sector continued					
Wiedeń Życie (Life)	Insurance	10.4	0	1.0	1.0
Heros	Insurance	2.5	0	1.4	1.4
Winterthur UPS	Pensions	31.4	0	9.5	9.5
Winterthur SA	Insurance	2.6	0	1.0	1.0
Winterthur Życie	Insurance	2.7	0	0.8	0.8
Winterthur Życie – Capital Increase I	Insurance	18.4	0	6.6	6.6
Energo-Asekuracja SA	Insurance	22.7	0	5.2	5.2
Dwunasty Narodowy Fundusz Inwestycyjny	Investment fund	3.9	1.7	0	1.7
Ósmy Narodowy Fundusz Inwestycyjny	Investment fund	3.9	1.7	0	1.7
Piąty Narodowy Fundusz Inwestycyjny	Investment fund	3.9	0.2	0	0.2
Pierwszy Narodowy Fundusz Inwestycyjny	Investment fund	1.6	1.6	0	1.6
Piętnasty Narodowy Fundusz Inwestycyjny	Investment fund	3.9	2.6	0	2.6
Siódmy Narodowy Fundusz Inwestycyjny	Investment fund	3.4	3.4	0	3.4
Zachodni Narodowy Fundusz Inwestycyjny	Investment fund	3.9	1.7	0	1.7
Schooner Capital	Investment fund	50.0	0	12.8	12.8
Orix Polska S.A.	Leasing	2.0	0	1.5	1.5
Kronospan Szczecinek	Lumber & wood	53.8	15.3	0	15.3
Krono-Wood Sp. z o.o.	Lumber & wood	106.1	19.2	0	19.2
Polspan Sp. z o.o.	Lumber & wood	42.3	10.2	0	10.2
ABB Dolmel Ltd	Machinery	19.6	6.7	0	6.7
Metalplast	Metal products	37.4	0	6.2	6.2
MPP – Krotoszyn S.A. Equity Investment	Metal products	8.6	0	6.2	6.2
MPP – Śrubena S.A. Equity Investment	Metal products	8.6	0	3.2	3.2
Atrium Business Centre	Office development	38.4	5.6	0	5.6
Waresco – Extension of Facility	Office development	4.8	1.4	0	1.4
Waresco Sp. z o.o.	Office development	36.6	10.1	0	10.1
Warsaw Financial Center	Office development	125.9	20.5	0	20.5
Fabryka Papieru Malta Decor SA	Paper products	9.6	4.1	0	4.1
Kwidzyn	Paper products	338.2	20.8	0	20.8
KZP – Poland (Trebruk)	Paper products	138.5	13.5	0	13.5
KZP – Poland (Trebruk) – Loan II	Paper products	71.8	10.3	0	10.3
KZP – Poland (Trebruk) – III	Paper products	50.0	15.3	0	15.3
Agora Gazeta Sp. z o.o. (RZB CEAL)	Printing/publishing	12.7	4.3	0	4.3
PWN Wydawnictwo Naukowe	Publishing	24.7	0	8.7	8.7
Alpha Properties	Property	91.2	9.4	2.8	12.2
Globe Trade Centre S.A.	Property	85.0	0	32.2	32.2
Eastbridge	Retail trade	173.0	23.5	0	23.5
Empik Centrum Investments – Loan III	Retail trade	30.0	19.1	0	19.1
Air Liquide – Huta Katowice	Steel	30.5	13.4	0	13.4
Huta L.W. Sp. z o.o.	Steel	224.2	15.0	0	15.0
Stalexport S.A.	Steel	190.6	0	27.4	27.4
Sub total		***7,569.3***	***793.4***	***763.0***	***1,556.4***

Continued

Signed projects as at 31 December 2000 (in € million), exchange rates as at 31 December 2000

Operation name	Sector	Total cost	EBRD debt	EBRD equity	EBRD total
Public sector					
Warsaw Wholesale Market	Agribusiness	43.2	16.2	0	16.2
WBK Poznań	Housing	44.6	1.7	0	1.7
Bydgoszcz Water Supply	Infrastructure	62.9	28.0	0	28.0
Wroclaw Municipal Infrastructure Flood Damage Repair	Infrastructure	36.0	16.0	0	16.0
Railway Modernisation Project	Railways	487.0	50.0	0	50.0
PKP Restructuring and Privatisation	Railways	231.0	100.0	0	100.0
Kraków Urban Transport Project	Roads	121.8	23.1	0	23.1
Motorway Development Project	Roads	82.6	45.0	0	45.0
Kraków Plaszów II Project	Water and sewage	81.0	21.7	0	21.7
Wroclaw Multi-Sector Municipal Infrastructure Project	Water and sewage	90.4	30.2	0	30.2
Sub total		***1,280.5***	***331.9***	***0***	***331.9***
Total		**8,849.8**	**1,125.3**	**763.0**	**1,888.3**
of which private					82.4%
of which public					17.6%